CREDIT AND FINANCIAL MANAGEMENT

THE ANNUAL INSURANCE NUMBER

Is Your Slip Showing?—Editorial Article
Prevent Indirect and Uninsurable Losses
Earnings, Insurance, Credit—An Analysis
Fifth "C" of Credit Operation—Coverage
Protecting the All-Important Receivables
Costs of Employee Dishonesty and Fraud

OCTOBER
1960

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VOLUME 62

The Cover Picture See Pages 5 and 16

Editor's Mail

One-Man Drug Stores

"With the gradual change in our overall accounting work, we have been forced to somewhat change our thinking as to marginal accounts.

"In the past five years, we have seen great changes in regard to drug store outlets. The smaller stores, classed as neighborhood stores, are gradually being eliminated, especially where there is no parking area. Some stores are moving to shopping centers. Generally speaking, they are much larger and usually are financed by moneys other than what we have been accustomed to. Hence, more of our marginal accounts are now stores classed as one-man stores and require very close supervision.

"We have attempted to handle these by placing our statement periods closer together. In other words, they will have less opportunity to build up a large account. While our billing is now on a twice-a-month basis, usually these margin accounts are on a weekly basis. In setting up the arrangement we attempt to point out to the customer that this is for his own protection as well as ours.

"Our salesmen are trained to follow up on these, and their calls are usually once a week. While this, we are sure, is not entirely a new method of handling accounts such as these, we quite often bring them into a profitable position."

D. Weber
Treasurer, Davis Bros. Inc., Denver, Colorado.

Helpful

"Let me say that I enjoy your magazine every month and find it helpful on many occasions."

John V. Marshall
Credit Manager, Fiddes-Moore & Company, Fort Wayne, Ind.

Thought Provoking

"We find many CFM articles from those in similar industries are thought provoking and, as such, purpose serving."

Ervin J. Fintak
Credit Manager, Norberg Manufacturing Co., Milwaukee, Wis.

EDITORIAL

IS YOUR SLIP SHOWING?

THERE is no especial talent required for a person to shut the barn door after the horse is stolen. Monday-morning quarterbacking is the favorite sport of millions, but in all the years in which it has been indulged, it has not been able to change the score of one single game.

Maximizing credit sales, while assuring only negligible losses, requires foresight—not hindsight. It requires the gathering and weighing of all the evidence about the customer.

It is comforting to credit management to know that a customer is highly regarded, well financed and has the plant and equipment to warrant the order he is placing. These are all factors within the control of the buyer.

But the unfortunate truth is that circumstances beyond the control of the buyer all too often put him in financial jeopardy.

Fire and other casualty losses beyond the debtor's insurance protection have brought many an otherwise sound and flourishing business to an untimely end.

Now we find ourselves in a judicial trend toward holding manufacturers and distributors liable for injuries to a product user even where no negligence is involved. The courts simply determine that the injury resulted from a normal use of the product.

Automobiles, food, pharmaceuticals—the list of potentially dangerous product-liability exposure is endless.

Do you examine your customer's insurance coverage carefully? Or is your slip likely to show?

Alan S. Jeffrey

Executive Vice President

THE OCTOBER COVER

WHEN executive, sales and administrative managements working in team not only set about developing a dealer to handle the supplier's products but also help him surmount pitfalls and come out on top as a successful account, the result is a twofold benefit—establishment of a growing business and a good distribution outlet.

A small floor plan line was obtained for him as a starter, the credit manager helped him choose his customers, the sales staff educated him in the handling of consumers, the treasury department found him sources of working capital.

On page 16 Wilbur J. Babin, assistant treasurer of George H. Lehleitner and Company, New Orleans, tells how the account was built up "from scratch" to a net worth of $150,000.

In the cover picture appear (l to r)

Walter E. Hobson, vice president and general manager of Lehleitner, Mr. Babin and J. C. St. Amant, secretary-treasurer.

Mr. Hobson, in the field of appliance sales most of his career, was first a salesman and supervisor for the New Orleans Public Service. He has been with Lehleitner almost from its start 26 years ago, from salesman to sales manager, thence to his present post.

Mr. St. Amant began with the company 20 years ago as bookkeeper. From credit manager he was elected secretary in 1949 and secretary-treasurer in 1950. He is also controller of the company.

A biographic sketch of Mr. Babin is on page 16.

The company is a wholesale distributor of appliances, dishwashers, electronics, floor coverings, motors, boats and marine accessories.

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Washington

A new law to tighten the Criminal Code provisions against concealment of assets by individuals in contemplation of bankruptcy has just been signed by the President. The NACM-backed legislation prohibits potential bankrupts, as well as agents or officers of the bankrupt, to conceal assets prior to the appointment of a receiver or trustee. The Fraud Prevention Department of NACM testified in favor of this legislation at Senate hearings a year ago, stating that its enactment would greatly expedite prosecution of fraudulent debtors. The bill also had the support of the National Bankruptcy Conference and the U. S. attorney general.

SHORTLY before adjournment the Senate stamped its approval on House-passed bankruptcy bill H.R. 7242, to remove uncertainties as to relative priority of security interests which had arisen from such court decisions as the *Quaker City Uniform* case.

It will be recalled that under that decision the Court had placed a chattel mortgage holder fourth in the order of priority after administrative expenses, wage claims and landlord's liens, rather than in first place, thereby casting doubt on the priority status of other security interests as well (*see CFM, March 1957, p. 20*).

As approved by both the House and the Senate the measure would restore all types of contractual liens — including conditional sales contracts, factors' liens and trust receipts as well as chattel mortgages—to their original first order of priority. It would also limit the power of trustees to invalidate contractual liens which remain imperfected at any time prior to bankruptcy, but would specify the trustee as a "judgment creditor" as against unrecorded federal tax liens.

Due to strong objections of the U. S. Treasury, however, the bill was vetoed September 8th. It is expected to be reintroduced in the 87th Congress, convening January 3rd.

SUPPLIERS have an opportunity to promote goodwill in sales under a new section of the Internal Revenue Code which permits manufacturers, wholesalers and distributors to pay small retailers' federal excise taxes for their customers directly to the tax collector. Thus the retailer is saved both the added bookkeeping and time of preparing and filing excise tax returns.

The required agreement by the supplier with the district director of internal revenue will enable the former to file a single excise tax return each calendar quarter, with payment of taxes for each retailer covered by the agreement. The supplier is reimbursed by including a separately stated charge on the invoices he sends customers, says Commerce Clearing House.

After the supplier's constructive tax base has been approved by the district director, he will not be entitled to a claim for a refund if the actual price adds up to a lower tax base than that computed by the formula, nor will IRS make additional assessments should the actual tax base be higher than the constructive base.

The standing practice of suppliers making the returns and paying the taxes of their house-to-house salesmen will continue in force until the end of 1960, after which agreements will be necessary under the new rules.

FOR the second half-year in a row, the $150 billion figure was exceeded in assets of state-chartered commercial and mutual savings banks. The total for the period this year ended June 15th was 2.12 per cent above the like half of 1959, according to the National Association of Supervisors of State Banks, Irving C. Rasmussen president. This was only a fraction of a percentage point under that for the second half.

SIGNIFICANT to American business is the prediction of the executive commission of the European Common Market, in Brussels, that the Market by year-end will show 11 per cent growth for 1960, a rate faster than that in the United States. Analysts say an additional 6 per cent rise will be recorded in 1961.

The first half of 1959 was slow in contrast with the marked jump in the final six months. The advance this year has been less sharp, but overall there will be a large increase over 1959.

Trade within community jumped 37 per cent in the first five months this year. The six nations' imports from countries outside the Market were up 25 per cent. There was considerable export but not enough to balance imports. Prices reflected stability, and the increased productivity practically offset wage increases.

℄ THE gradual slowing down of manufacturing companies' inventory buildup reached the point in July where total production was less than total sales, for the first time since the steel strike. Heavy durables moved the gearshift into reverse — primarily transportation equipment (other than automobiles) and nonelectrical machinery, says the commerce department.

For nondurables the inventories remained unchanged on the whole.

Sales fell off a bit in July, as they had the previous month, and new orders were down $700 millions, or 2 per cent. Inventories were $200 millions under June, whereas they had risen $900 millions in January, then tapered off to $100 million increase for June. July sales, seasonally adjusted, were $200 millions below June's, the change chiefly in nondurables.

While cost of living on farms held steady, prices of agricultural products declined 2 per cent between mid-July and mid-August, to 79 per cent of parity, from 80. Drops were registered in prices for meat animals, vegetables, potatoes, chicken, feed grains and tobacco. There were increases for milk, eggs, cotton and wheat.

℄ AMERICAN makers of typewriters told the Tariff Commission that a 30 per cent tariff on imports, a minimum of $10 on each machine, was imperative for survival of the domestic industry.

Every foreign country manufacturing typewriters protects its industry by tariff, whereas this nation protects every kind of office equipment except typewriters, said Fortune P. Ryan, executive vice chairman of Royal McBee Corporation.

Emerson E. Mead, executive vice president Smith-Corona Marchant, Inc., testified that imported typewriters now amount to more than one-third of total U. S. consumption in that field.

℄ THE INTERNATIONAL BANK for Reconstruction and Development (World Bank) arranged to borrow $240 millions in U. S. dollars and Deutsche marks from the Central Bank of Germany for 12 years at 4½ per cent interest. The new lending rate set is lowered to 5¾ per cent (from 6 per cent). This loan is expected to complete the borrowings of new money by the World Bank through 1960 and possibly until mid-1961.

℄ INVENTORIES in the opening quarter of 1960 grew at a rate comparable to that of last spring prior to the steel strike, with the accumulation centering in durable goods as manufacturers and distributors rebuilt strike-depleted stocks. The advance from the fourth quarter accounted for over $7 billions of the rise (at annual rate) in GNP, notes the office of business economics, U.S. department of commerce.

℄ BUSINESS fixed investment rose $2 billions in the first quarter 1960, the gain being especially marked in the case of durable goods manufacturers. Continued increases in plant and equipment investment are indicated for the remainder of the year, according to business plans reported in the latest survey by the Office of Business Economics and Securities and Exchange Commission. The survey indicated a rise of 14 per cent from 1959 in the 1960 annual total.

℄ THE $30.4 billion sales by merchant wholesalers in the first quarter were 4 per cent higher than in the like period last year. Durable goods sales at $12.7 billions were up 5 per cent, nondurables 4 per cent, at $17.7 billions.

Nonferrous metals sales led in gains, 18 per cent; of nine trades showing declines, coal wholesalers registered the most marked drop, 10 per cent.

℄ FROM DETROIT comes word that sales of imported cars have declined for the first year of the five since they began to cut a marked figure in the U.S. market. In May they registered 7.05 per cent of U.S. sales, as against 12.71 per cent last December. Two makes, Volkswagen and Renault, however, did show increases.

℄ BY the end of 1960 U.S. exports will show a $3.4 billion surplus over imports, contrasted with last year's $1 billion surplus, says the National Foreign Trade Council. The 1960 total exports, excluding military aid shipments, are predicted at $18.8 billions, an increase of $2.5 billions over 1959. Imports are forecast at $15.4 billions, a slight increase in a year.

℄ GREATER exports of U.S. steel mill products and a drop in the imports were forecast for this year by the commerce department. Exports were expected to reach 3 million tons, imports 4 millions.

℄ PROFITS of corporations set new highs in the first part of 1960 despite spottiness in some industries, says the department of commerce. In annual rate they exceeded the record $47.8 billions of last year. National income also moved beyond the 1959 record of $398.5 billions.

Corporate profits were $36.7 billions in recession 1958 and $43.3 billions in 1957. Profits after taxes reached $24.5 billions last year, $18.9 billions in 1958.

℄ RECORD dollar value of Gross National Production, $34.595 billions, was registered by Canada last year in increasing the goods and services total by 6 per cent, a net gain of 4 per cent over the previous year after allowing for 2 per cent in increased prices. Donald Fleming, finance minister, in his previous budget address to Parliament had predicted an overall increase of 7 per cent for a fiscal deficit of $393 millions.

Prevent Indirect Uninsurable Losses - - -

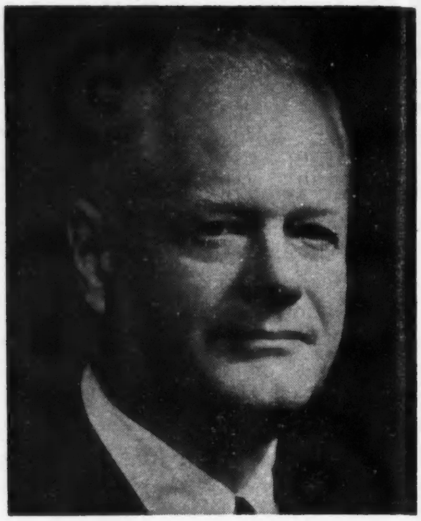
says JOHN A. NORTH

President of

The National Board of Fire Underwriters, and

President of The Phoenix of Hartford Insurance Companies,

Hartford, Connecticut



THE serious effects of a fire loss which cannot be insured are frequently overlooked. To prevent these indirect losses from originating at all can be accomplished only by a full realization of their disastrous impact on every worker and taxpayer in the community.

The post-war demand for consumer goods, transportation, and certain new products was not generally anticipated 20 years ago. In addition, new housing for America's families has produced further acceleration in our expanding American economy. Even considering the effect of inflation on costs of today's production, a strong indication of the increase in our national wealth may be drawn from the development of new construction.

Costs and Losses Compared

The cost of new residential construction in 1940 was approximately $3 billions. For the year 1958, after a continuous upward movement over the intervening years, the cost of new construction in place was approximately $18 billions. Non-residential construction in 1940 amounted to approximately $1 billion; in 1958, new construction in this category amounted to approximately $9 billions. Farm construction in the pre-war year was $240 millions but 19 years later the annual cost had climbed to $1.6 billions. This new construction in business and industrial structures, added farm buildings, as well as homes for our swelling population, has created an almost inconceivable rise in dollar values of property, not to mention the impact of post-war inflation.

Concurrently, the aggregate property loss from fire has also increased. In 1940, the property loss was $286 millions. Following a steady upward trend, the United States fire loss first exceeded $1 billion in 1957 and a year later it amounted to $1.056 billions. Only twice in the period since 1940 have fire losses recorded a decline from a previous year, in 1949 and in 1950.

Lest one gather the impression that the work which has been done by the insurance business over the past years in the interest of fire prevention has been without result, it should be noted that fire losses actually decreased substantially in proportion to accumulated national wealth in the past half century. Today, the percentage of fire loss to accumulated national wealth is about one-third of what it was at the turn of the century. The gap between values of structures and goods at risk and the actual fire losses attests the effectiveness of our continuing fight against fire. Nevertheless, the loss of more than 11,000 lives and the increasing incidence of fire demand that there be no lessening in man's continuous struggle to prevent this tragic waste.

Because in considering loss potentials the only certainty is uncertainty, it is axiomatic that the prudent person will protect himself against the unexpected financial loss by shifting his loss potential to a professional risk bearer through the judicious application of appropriate insurance coverages to meet his own needs. In doing so, he exchanges an unknown possibility of financial disaster for a predetermined annual cost in the form of a premium, thereby reducing an intangible possibility for an economical tangible expense.

Even though there is a multiplicity of kinds of insurance from which a comprehensive insurance program can be tailored, every businessman will be faced with one or more indirect sources of loss against which he cannot insure. Every time fire strikes, one or more of these indirect losses will be encountered.

Whether a business be large or small, manufacturing or mercantile, fire creates certain basic reactions. First of all, there is a stoppage of work because of contagious excitement, insatiable curiosity or evacuation of the premises. Then follows a disruption of orderly routine, even from a small fire, which may require

JOHN A. NORTH, president of the National Board of Fire Underwriters and president of The Phoenix of Hartford Insurance Companies, is also a past president of the NACM Northern Connecticut Division (Hartford). Mr. North, the National Board, and its general manager, Lewis A. Vincent, have all been exceptionally cooperative with NACM over the years.

Graduate of Hotchkiss School, Mr. North joined The Phoenix as a clerk, and a year later entered Yale University. On graduation he rejoined The Phoenix and successively became state agent in Texas, assistant secretary, secretary, a director, and executive vice president.

Fire Prevention Week *October 9-15*

"Fire prevention is never a one-time proposition . . . It is a continuous, full-time activity".
—John A. North

hours to overcome. This disruption may not be confined to operations within the immediate vicinity of the fire; it may filter throughout the entire organization. The man-hours lost as a result of every fire cannot be regained without cost. If the expense of lost productive time during a fire is to be made up, it would be at the cost of the time lost and the time required to take up the deficit in production. If the business is operated on an integrated production line basis, the loss in productive time at the fire site might well have its counterpart in every subsequent operation.

Other Indirect Losses

While the loss of productive time or man hours is always present in every fire, there are other indirect losses which may appear. These usually emanate from large fires. Their effects may spread into every area of activity to which the businessman extends his dealings. These indirect losses include:

Loss of specially trained or skilled workers who obtain employment elsewhere after fire results in plant shutdown.

Loss of customers—those who obtain their supplies from others because they cannot wait for a razed plant to get back into production.

Loss of executive manpower in scheduling, rebuilding, planning.

Loss of competitive position.

Loss to the community's economy through decrease in trade as a result of reduced earnings of workers; sometimes even increased tax burdens because property damaged by fire is often removed from the tax rolls.

There are those who, after considering all these possibilities, would not believe that such conditions could arise from a single fire, but a case in point is a dyeing and finishing plant in a small New York State community. Fire destroyed the mill and, with it, hundreds of bolts of cloth ready for shipment to dress contractors for the spring and summer trade. There were 250 employees thrown out of work as a result of the fire.

Though most of the property loss was covered by insurance, the mill's customers lost out on a major selling season and some of the customers transferred their business to other dyeing and finishing plants. The employee problem was acute. Even if the plant were restored to operation in six months, this was a long time to be without regular employment, and other plants needed their skilled help. When the plant was rebuilt, it was actually re-established in another community. Although some of the employees commuted each day to the new locality, others had to take jobs elsewhere.

The Tax Factor

The mill had been one of the chief sources of tax revenue for the community, and the families of its workers had been sustaining the town's economy. With the mill no longer operating, business in the community slowed down. Not only was the tax revenue from the mill lost but many of those who were out of work—most of them owned their own homes—found themselves unable to meet local property taxes. Other taxpayers thus faced an increase in order to meet the town's obligations. It will be noticed that all the indirect losses referred to were found to have occurred as a result of this single fire. The situation might never have reached such a degree had there been an effective fire prevention program, which could have uncovered the cause behind this fateful fire.

October 9th to 15th has been established by a Presidential proclamation as Fire Prevention Week, for the 38th year. It is appropriate to consider what can be done to overcome the indirect losses that are attendant on business and industrial fires. Fire Prevention Week is only a symbol to dramatize the loss of lives and property by fire and thus serve as a public reminder. Fire prevention is never a one-time proposition, nor is it a one-week commemoration. It is a continuous full-time activity.

Ideally, fire prevention begins in the planning stage. Architects have available for their use the National Building Code of the National Board of Fire Underwriters as a guide when planning buildings. If the building is to be erected in an urban area, in all probability local building laws will have been adopted, wholly or in part, from this National Building Code. It is all the more important that the National Building Code be consulted when planning buildings for rural areas, for there may be no officials whose responsibility it is to insist on fire safety requirements. Furthermore, there may be no adequate fire fighting facilities to overcome any short-sighted short-cuts to standard construction.

Plant Layout Also Pertinent

In the designing stage, not only building design but also plant layout should recognize the accepted standards for fire safety. This should be step one in prevention, for fire insurance rates are largely influenced by the susceptibility of the building and its contents to damage by fire. Submission of plans to the Fire Insurance Rating Organization having jurisdiction, for their review and recommendation before construction is started, can be advantageous with respect to insurance rates and it might well result in suggestions leading to a reduction in the fire potential. Expert advice when planning a building, for maximum fire resistance and minimum fire hazard, can be secured in this manner without obligation.

Supervisory Staff Support

But proper building design and plant layout are not the sole answer for fire prevention. Management has the responsibility of keeping the plant running through its years of operation and during changing conditions. This includes responsibility for educating employees, any of whom could contribute to the origin of a fire through lack of knowledge or an act of carelessness. However, without the enthusiastic support of the supervisory staff, little progress will be

(Concluded on page 34)

"Every businessman will be faced with one or more indirect sources of loss against which he cannot insure. Every time fire strikes, one or more of these indirect losses will be encountered."

John A. North

EARNINGS, INSURANCE, CREDIT

A Recitation of Various Policy Forms Necessary for Full Coverage

By C. M. KAHLER
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CREDITORS are, and should be, concerned with the risks run by their debtors. Any business venture involves some inherent risks that may result in loss or gain to its proprietor and that must be assumed by him. If his creditors are satisfied as to his judgment and ability to absorb the financial losses that may result from such normal business risks, they are content to assume the risks involved in their extension of a line of credit.


C. M. KAHLER

But business ventures also involve risks of misfortune that have financial loss as their only consequence, that may be catastrophic so far as the business unit is concerned, that strike fortuitously, and that cannot be predicted in the individual case. Fortunately many of these latter risks are predictable in the mass, and protection against their financial effects may be obtained through insurance.

It is not good business judgment for a businessman to assume such risks for himself or to expect his creditors to assume them for him. If he does assume insurable risks himself and a loss of substantial proportions ensues, his creditors, not having satisfied themselves as to his insurance protection, will find themselves unwittingly the ultimate risk-bearers.

As a general proposition, the importance of full insurance coverage in protecting the credit risk is undoubtedly appreciated. All forms of insurance covering debtors contribute to the protection of creditors. Obviously creditors should be interested in and make inquiry about the adequacy of their debtor's coverage against those virtually limitless possibilities of loss through liability hazards arising out of the operation of premises, businesses, automobiles and the like.

Creditors surely should give consideration to the adequacy of property insurance coverage carried by their debtors, both as to amount of insurance and as to perils covered. If a business is one that depends for its success upon the activity of the proprietor or other key personnel, creditors should be concerned with the life insurance and disability insurance on such personnel carried for the protection of the business. Here the reason for concern is the probable effect of death or disability upon the earnings of the business. Should not creditors be similarly concerned about the effect upon a debtor's earnings should he be forced to suspend or curtail operations because of damage to essential property?

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Dr. Kahler is a trustee of the American Institute for Property and Liability Underwriters, a director of the Federal Crop Insurance Corporation, on the administrative board of the Huebner Foundation for Insurance Education, chairman Wharton school's Pension Research Council, past president American Association of University Teachers of Insurance.

Even though adequate direct damage insurance is carried, time is required to repair or replace damaged property. During this time operation of the business is impaired, earnings decline, but many important expenses continue in whole or in part. Interest on indebtedness must be met; property taxes at least on undamaged property must be paid; salaries of officials and key personnel must be continued. But where are funds available to meet these obligations and to keep the organization intact? If the business has financial reserves, they will be depleted and may well be insufficient, so that the business will become disorganized and may never be able to resume. Profits will be reduced or disappear and crippling losses may be suffered. Would it not be well to have funds forthcoming as a result of the disaster—to meet these losses from outside the business? Would it not be of considerable comfort to the creditors of the business if it had insurance to cover this risk?

Business Interruption Insurance

Although credit may be extended to a debtor on the basis of the value of his physical assets, is it not through his earnings rather than through liquidation of assets that a creditor expects the debt to be repaid? Is it not as important to protect the earnings dollar as to protect the property dollar of a business? Credit is accepted from going businesses and it is expected that they still will be going businesses when their accounts are satisfied. Creditors are not interested alone in receiving payment of obligations, but also in preserving customers in sound condition for future dealings. Insistence upon business interruption insurance will help one's customers avoid the high mortality of businesses suffering property losses and will permit efficient resumption of operations.

The idea of specifically insuring against business interruption losses resulting from damage to physical property is of comparatively recent origin. Attempts made to recover for such losses under direct damage insurance covering physical property were consistently denied by the courts. Present day policies leave no question on this point, specifically excluding "compensation for loss resulting from interruption of business or manufacture." So, adequate direct damage insurance alone is not enough to provide "full coverage."

There is no direct association be-

(Continued on page 12)

tween the extent of property loss and the loss of earnings that may flow from it. A relatively small property loss may occasion a relatively large earnings loss; a large property loss of quickly replaceable property may produce only a relatively small loss of earnings. Therefore forms of insurance, separate and distinct from the direct damage coverages, that provide indemnity varying with the severity of the interruption and its duration, have been developed to provide protection against the risk of loss of earnings because of inability to continue operations, or extra expenses incurred to maintain operations, when property essential to the business is damaged. These forms of insurance are not well understood, are much misunderstood and are greatly neglected by many business proprietors. They are forms necessary for *full coverage* of the credit risk—forms with which all those responsible for credit acceptance should be familiar.

Recent changes have produced a considerable simplification of coverage that should make business interruption insurance much more easily understood by and acceptable to prospective insureds.

Properties Must Be Described

The insurance contract must describe the various properties, whether owned or not, combined in a business operation. Coverage is provided only for such losses of earnings as result from damage by perils insured against to any part of the properties described. This insurance does not cover ordinary business risks or other causes of earnings loss. Furthermore, it encompasses loss of earnings from the time of occurrence "for only such length of time as would be required with the exercise of due diligence and dispatch to rebuild, repair or replace such part of the property herein described as has been damaged or destroyed."

Once restoration has been or could reasonably have been completed under conditions as they existed at the time of the loss, the insurer's liability ceases. The insured is not required to restore the property, nor is he precluded from expanding or improving it. The insurer assumes no responsibility for future loss that may be experienced through loss of customers to competitors, contracts that may have been forfeited and the like. These are too indirect, indefinite and immeasurable to be considered insurable.

"Insistence upon business interruption insurance will help one's customers avoid the high mortality of businesses suffering property losses and will permit their orderly resumption of operations."

Dr. C. M. Kahler

There is a difference between manufacturing risks and mercantile or non-manufacturing risks as to the property essential to the conduct of the business. While damage to buildings, machinery, equipment, stock in process or raw stock may interrupt the production activities of a manufacturer out of which future earnings would arise, damage to his stock of finished goods would not affect his production. Damage to any real or personal property of a merchant or operator of a service business, including particularly what would be the finished goods of a manufacturer, may affect his ability to operate.

Furthermore, gross earnings of the two types of businesses must be differently defined. Although the contracts provide more precise definitions, the essence of the definition of gross earnings for manufacturing risks is the net sales value of production less only the cost of raw stock from which such production is derived, whereas for mercantile risks it is the net sales less the cost of merchandise sold.

In each case other earnings from the operation of the business are included, but non-operating income such as investment income is not included since its continuance is not dependent upon continued operation of the business. Separate forms have been devised for these two types of risks to permit a different description of the property and a different definition of gross earnings.

Actual Loss Sustained

In event of loss causing a partial or total suspension of business, the forms provide for indemnity of the "*actual loss sustained* by the insured resulting directly from such interruption of business, but not exceeding the reduction in gross earnings less charges and expenses which do not necessarily continue during the interruption of business. . . . Due consideration shall be given to the continuation of normal charges and expenses, including payroll expense, to the extent necessary to resume operations of the insured with the same quality of service which existed immediately preceding the loss." Only such earnings, but including the insured's profit, as he would have realized by actual operation of the business, had it been possible, are recoverable.

If expenses that would have been incurred in operation can be avoided during an interruption without impairing the ability of the business to resume operations efficiently, such expenses are deducted from the reduction in earnings to determine the insured's actual loss. The justice of this is self-evident. On the other hand, if the insured can resume partial operation or shorten the period of interruption by using substitute property or by incurring additional expense, he can recover such increased costs to the extent that the loss is thereby reduced.

Coinsurance Clauses

In advance of an interruption it is impossible to determine what expenses will continue or the extent to which they will continue, and what expenses will be avoidable. This is dependent upon the duration of an interruption and the particular property damaged. In a short interruption even such a relatively direct expense as ordinary payroll would be continued in order to avoid the greater expense of dismissing and rehiring employees when business could be resumed. In a long interruption many expenses can be avoided or reduced. Insurers must obtain premiums in proper relation to their exposures to loss.

Hence, business interruption insurance forms include coinsurance clauses requiring, as a condition for full recovery of loss, the carrying of an amount of insurance equal to 50, 60, 70, or 80 per cent of the *gross earnings* as defined. The insured is given a choice of coinsurance percentage to allow him to adapt the coverage to the particular conditions of his business. If the distribution of his costs is such that a large proportion of them would be likely to be avoided in an interruption, or if his properties are such that they could be replaced completely within, say, half a year, he would choose coverage with a 50 per cent coinsur-

ance clause. If fewer expenses were likely to be avoided or a long period of interruption might ensue, coverage with a higher coinsurance clause should be chosen.

If the ratio of an insured's ordinary payroll to gross earnings is very high and he could easily replace his ordinary employees after an interruption, he may not desire to carry and pay for as much insurance as 50 per cent of his gross earnings. He may obtain insurance with an indorsement that will completely exclude ordinary payroll from coverage and from the coinsurance base, or with one that will include ordinary payroll coverage for a limited period of time, usually 90 days, and will permit appropriate reduction in the coinsurance base. If either of these alternatives is elected, the insured may not also elect a coinsurance percentage; the insurance must be written with an 80 per cent coinsurance clause. The coverage, however, is rendered quite flexible, and a material saving in cost with little sacrifice of real protection is possible for many risks.

Earnings Insurance

A still simpler form of coverage, called earnings insurance, is provided for smaller non-manufacturing businesses where little business interruption insurance has been carried. In this form, no coinsurance clause is used, but the insured's recovery is limited to 25 per cent of the amount of insurance for any 30 consecutive calendar days. The applicable rate is high, to offset the absence of a coinsurance clause. In addition, the temptation to underinsure can be disastrous in view of the 25 per cent per month limitation which is not cumulative. Hence, this coverage has not been widely used.

Another type of insurance, closely associated with business interruption insurance, is called extra expense in-

(Concluded on page 34)

"Creditors should be interested in and make inquiry about the adequacy of their debtor's coverage against those virtually limitless possibilities of loss through liability hazards arising out of the operation of premises, businesses, automobiles and the like."

Dr. C. M. Kahler

You May Be Living on Borrowed Time If Accounts are Ignoring

The Fifth "C" of Credit - - Coverage

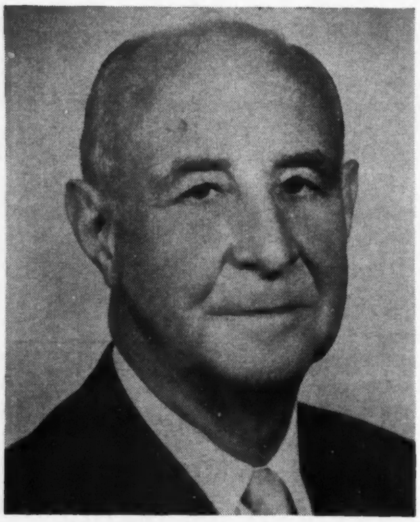
By RALPH E. BROWN
President
National Association of Credit Management

WHILE we are all familiar with the three C's of Credit —Character, Capacity and Capital—and perhaps the fourth C —Conditions, more and more use of a fifth C—Coverage is being made by credit executives all over the country in their deliberations. Yes, when catastrophe strikes, the insurance protection carried by firms to which you sell goods on credit could be all that stands between the preservation of capital and financial disintegration. It is at such a time when adequate and proper insurance, written in companies that are financially sound, becomes a most valuable asset in the possession of the debtor.

The credit risk will become immediately impaired if there is a substantial loss of any kind within the realm of known risks that is not covered by insurance. The ordinary business risks are great enough in themselves without assuming in addition the risks of accidents and occurrences for which insurance can be purchased.

Once Were a Single Transaction

Credit and insurance were handled centuries ago as one transaction. You will recall from your history books that it came about in the first form of insurance, marine, through the financing of ships and their cargoes at high rates of interest—with the agreement that if the ships were lost at sea, the loans would not have



Ralph E. Brown

to be repaid. The interest rates were sufficiently high to insure a fair return on the money loaned and a premium on the risk assumed.

That bond between credit and insurance—or coverage—still exists today, and with the amount of credit that is being extended, its importance looms even greater. Every credit executive should be more conscious then of the proper part insurance coverage should play in the consideration of acceptance of credit.

You cannot investigate thoroughly all phases of every buyer's insurance program, nor is it always necessary. If you did, you might find yourself with a terrific volume of work on your hands and sales slipping through your fingers while you were in the process of investigating the client's insurance program. However, in your investigation of the credit of a prospective buyer, perhaps a little more emphasis might be placed on the insurance coverage along with the other credit considerations in many situations. If this is not done, sure, you may go along all right for awhile, but you may just be living on borrowed time.

Whether the insurance program is investigated or not, what kind of coverage should the debtor have? The answer is not simple. The program that one company has may not be suitable for another, even though they may be in the same business. There is no set pattern, but there are certain ground rules that can be established.

The desirability of insurance varies directly with the size and possibility of loss up to a certain point, which differs with different companies. If the possibility of loss is remote and losses themselves are small, then your requirement that insurance be carried can be minimized. As the frequency rises or the magnitude of possible losses increases, insurance coverage becomes more desirable from the creditor's standpoint.

The Fundamental Objective

In the analysis of any debtor's insurance program, the fundamental objective should be to determine insofar as possible that the debtor cannot sustain an uninsured loss of such magnitude that the creditor will not receive payment for the goods that have been sold on credit within a reasonable period of time. Beyond this, the debtor's insurance program should protect his assets and earnings sufficiently against losses.

Putting it another way, insurance should be purchased as protection against large uncertain losses which are not predictable and which cannot readily be met from the debtor's current income. Uninsured losses should be small enough individually and in the aggregate so as not to threaten seriously the financial stability or change materially the debtor's annual financial statement. Otherwise, the debtor's paying practices can vary from what is anticipated by the creditor.

The soundness of the debtor's in-

FITTINGLY, *the president of the National Association of Credit Management discusses the fifth C of Credit in this Annual Insurance Number, for Ralph E. Brown, elected at the 64th Annual Credit Congress in St. Louis, his home city, has devoted his entire business career to insurance. He is vice president of Marsh & McLennan, Inc., largest insurance brokers in the world.*

From the University of Illinois and the U. S. Military Academy at West Point, Mr. Brown had become associated with the company in 1927.

Mr. Brown's election to the NACM presidency followed two terms as vice president Central Division (1956-57 and 1959-60) and three years as a director of National (1953-56).

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surance program will depend upon the analysis that is made of the risks to which the properties and operations are exposed. Perils of fire; windstorm; accidents to employees, to members of the public, to property of others; and perhaps employee dishonesty are quite readily recognized. Less consideration has been given to the consequential losses that could occur. Here might be considered loss of profits, continuing and additional expenses on account of interrupted business which can go on for some time, destroyed records including the accounts receivable, the accounts receivable themselves, the death of a principal, and others.

Consequential Losses

While these perils, quite readily recognized and of major importance, are more familiar, perhaps less attention has been given to those in the category of consequential losses.

Many times property insurance alone is not enough, and business interruption coverage (also known as use and occupancy) should be carried by the debtor, not only against the perils of fire but also for the shutdown that may be caused by perils covered under the boiler and machinery contract. Let us assume there was a serious fire or a boiler explosion. Either the property insurance or the boiler policy would pay for the physical value of the property destroyed, but this might represent only part of the actual loss sustained. To restore the property to operation could conceivably require a considerable length of time, and during this suspension of operations, income either stops or is diminished.

Net earnings cease and there are numerous continuing expenses during this period of inoperation, such as royalties, employees insurance, miscellaneous general expense, taxes, depreciation and many others. If business interruption insurance has not been purchased, then there must be sufficient funds in the business to keep it going. During this period, then, the probability of a creditor being paid is less. Property insurance is not always sufficient, and many times a debtor should have business interruption protection to bridge the gap, making it a very important factor in the acceptance of credit. Approximately 50 per cent of the business concerns which suffer a

(*Concluded on page 34*)

MANAGEMENT AT WORK

.... a problem case is solved

By WILBUR J. BABIN
Assistant Treasurer
George H. Lehleitner and Co., Inc.
New Orleans, Louisiana

THIS could be called a story of growth despite pitfalls faced by a small business venture. We like to look back over the years at the progress made by the account, because it reflects a complete picture of management at work—executive, sales and administrative managements working as a team.

Comparatively few pre-World War II appliance dealers were still in business as such in the early postwar years. Therefore, the rapid development of accounts was of paramount importance. This article covers the development of such an account.

Let's call the account the PDQ Repair Service, for that's exactly what the business was in 1947. Its financial statement at that time indicated a net worth of approximately $8,000, the greater portion in the owner's residence. Working capital was nil but the dealer evidenced a keen interest in the appliance business.

Small Floor Plan Line

Our first job was to obtain financing facilities for both the merchandise that we would supply and for his retail time sales. As we had standing arrangements with a national commercial finance company, we were successful in obtaining a small floor plan line for him.

Considerable time was spent by our sales organization educating and training the dealer in handling sales to the consumer. At that time all appliances were on allocation. Merchandise received both by ourselves and the retailers moved out practically as fast as it moved in. With the assistance of our credit department, he was able to make wise choice of his customers.

Each chattel mortgage discounted with the finance company carried his indorsement. With his small amount of working capital, he could not possibly afford even the smallest number of repossessions until he became much better established. This period gave him an opportunity to learn something about the credit and administrative end of his business, and to judge credit risks at a retail level.

Change to Buyers Market

By 1949 his financial statements were reflecting a continuous growth, with a return of most of the profits into the business. However, the market was rapidly changing from a sellers to a buyers market. Merchandise was becoming available in quantity and inventory was beginning to increase. Floor plan lines had to be expanded.

The dealer was building up a larger inventory, but it appeared that he was beginning to loosen his credit reins. While we felt that he had made good progress, we doubted that he could afford the luxury of some of the types of sales he was making. We visited him, went over his complete operations, and pointed out the problems that could result, particularly the burden of repossessions he would face. Fortunately, the poor risk type of paper represented a very small percentage of the whole, and as our recommendations were serving his interests, he heeded our advice.

His original place of operation had been exceedingly small and at least two enlargements were required. By 1953 the business had grown to the point where the facilities were totally inadequate. He had purchased a lot and had started construction of a building of the type he needed. He used his local bank for interim financing, and was under the impression that the bank would handle the long-term financing over a period of ten years.

During the construction period we noted a trend to slowness in payments to his trade creditors. We felt that this would be a temporary situation because of the building program and a call on him more or less confirmed our thinking. *(See opposite page)*

WILBUR J. BABIN went from University College, Division of Tulane University, to a commercial finance company, returned to it after war service. and two years later joined George H. Lehleitner and Co., Inc., New Orleans, as assistant credit manager. He advanced to credit manager in 1949, to assistant treasurer in 1955, and is also office manager.

Mr. Babin, who holds the Executive Award, NACM Graduate School (Dartmouth 1956), is vice president and executive committee chairman of the New Orleans Credit Men's Association and has served as Exalted Superzeb of the New Orleans Herd, Royal Order of Zebras.

However, when the building was completed he came in and advised us that his bank would handle only the amount already committed for the building—less than 40 per cent of the actual cost. We also learned that in order to obtain the interim financing he had had to mortgage to the bank his residence and another piece of property he had acquired.

By this time his statement reflected a net worth of approximately $100,000. We felt that he was entitled to a better financing arrangement than he was being offered. Furthermore, there had to be correction of the slow-up occasioned by the amount of money withdrawn from the business for construction. He needed to replace some of his working capital.

SBA Contact Successful

We contacted his bank and learned that the picture was exactly as given us. We then began looking elsewhere for sources of finance that would consider a long-term mortgage on only the business property. As the dealer in a rural community, the insurance companies and homesteads in the area were not interested in a loan. Our banking sources felt they could not enter into any negotiations with him because of their correspondent relationship with his bank.

Loan Approval Obtained

For a while we were stymied in our efforts to help the account. It was then that I contacted the Small Business Administration. Officials there indicated interest in the case. Accompanied by the dealer, I went to the SBA office. We obtained all forms necessary, went to the dealer's place of business and completed the application for the loan. Within days we had obtained a Small Business Loan approval. The SBA agent visited the dealer's bank to offer the loan with SBA participation.

We were not in on this visit, but it developed that the bank agreed to make the loan over a period of ten years without SBA participation and released the mortgage on all property other than the new building. This loan put back into the business most of the working capital that had been withdrawn; all creditors were paid up to date, and the dealer again was in position to discount his invoices.

His difficulties were not over—yet.

(Concluded on page 29)

Protecting Those Most Valuable Receivables

The Role of Credit Insurance in Completing Customer's Coverage

By E. F. KANE
Vice President and Director
American Credit Indemnity Company of New York
Baltimore, Maryland

NO insurance program can be complete until it includes credit insurance. Credit insurance is a necessary part of a full insurance program since it insures the account receivable which represents the cost and expected profit of the product which has been sold. The cost is actual but the profit can be realized only when the account receivable is paid. If it is not paid, then not only the expected profit is lost, but the cost of the merchandise as well.

There is no question but that the well-managed manufacturers and wholesalers carry full insurance coverage on their plants, equipment, merchandise, and protect their companies with insurance to prevent an unexpected happening to change their financial picture. In this way they can properly program their annual operations with the knowledge that the unexpected, which cannot be considered in any planning, is eliminated through proper insurance protection.

However, some have overlooked the necessity of providing insurance to protect their most valuable asset—the account receivable. This is actually only a book entry, since the physical asset has been surrendered to another and all the insurance protection formerly applying to the physical asset ceases, since title passes to the customer. There is only one form of insurance which can continue the protection and that is credit insurance, which guarantees the value of the account receivable.

E. F. Kane

Credit insurance is issued to manufacturers, wholesalers, and service organizations that sell their merchandise or service to others engaged in business. It provides a dollar amount of coverage on each account sold. The policy contains broad open coverage with other coverages scheduled. The policy is tailored to fit the needs of each insured.

Credit insurance is an excess insurance, with the insured agreeing to a fixed amount of loss before the insurance company is called upon to make a claim settlement. This agreed amount of deductible is a fraction of a per cent of the total volume and is an amount which the insured is agreeable to assume on an annual basis since it is predetermined before the policy year commences and can be properly provided for in the budget. This deductible, of course, makes the cost of the insurance lower since it saves the expense of trading the normal cost of credit losses between the insured and the insurance company.

Credit insurance guarantees 100 per cent of the value of each covered loss above the agreed deductible. If desired, an insured may participate as a coinsurer in each loss and such participation is usually 10 per cent on the better rated accounts and 20 per cent on the others. The assumption of part of each loss through coinsurance by the insured reduces the premium.

In addition to the protection against unusual and catastrophic losses, credit insurance can be used advantageously as a sales help, since it permits the shipment of a full order to a good company despite the amount of such order. This not only will increase the sales volume but will retain the goodwill of the customer.

It is necessary for some companies to limit the highest credit any one account can owe them—such limit based on their own net worth, regardless of how good a credit risk the account might be. This is proper and is recognized in the insurance industry as a whole, because they also limit their exposure on a single loss through reinsurance facilities.

Shipments Protected

Credit insurance offers to a company engaged in the sale of merchandise the same spread and in addition guarantees payment of the account receivable, thereby permitting the insured to ship an order regardless of its size, with the knowledge that they are protected in the event of loss and their capital structure will not be impaired.

An insurance program is not complete without credit insurance, for the inclusion of it in the program will make certain that the value of the important asset — *the account receivable*—will be protected against unexpected loss, which does occur despite all diligence and control.

EUGENE F. KANE, ***graduate of St. Louis University, completed a two-year course in chartered property casualty underwriting at Loyola College in Baltimore, and began with American Credit Indemnity Company in 1927 as a clerk in the underwriting department. He was successively elected assistant secretary, secretary, vice president in charge of the credit department, director, and last year became vice president of the underwriting and credit departments.***

Mr. Kane is a member of NACM's Insurance Advisory Council and the New York association's insurance committee, also a director of the Baltimore association.

Employee Dishonesty Can Ruin You If Accounts Lack Proper Coverage

By ROBERT M. BLAKE
Special Auditor
Liberty Mutual Insurance Company
Boston, Massachusetts

THESE HEADLINES appeared recently in a New York City newspaper in a period of a few weeks: "Brand Wall Streeter 270 G Gambling Thief;" "Hi Living Bookkeeper Deflated;" "Stamp Clerk Indicted In Stickeroo;" "Torch Yeggs Get 5 Gs And the Building Burns."

R. M. BLAKE

The total monetary loss represented by these four headlines is $1,220,000. When one sees such headlines the natural reaction appears to be: how great is the *annual* loss to businesses from defalcations, and how many of these cases actually reach the newspapers? Unfortunately, because comparatively few do, we are not able to arrive at an accurate approximation of the first question. The fact remains, however, that losses through fraud are on the increase and at an alarming rate. Here are some statistics on fidelity losses that have been paid by insurance companies. They should be of interest.

Year	*Fidelity Losses*	*National Income*
1957	$30,097,764	$364 Billions
1948	$13,079,398	$223.5 Billions
Increase	130%	62%

Fidelity losses have increased over twice as fast as the national income, the table indicates. Therefore, the chances of your sustaining a fidelity loss today are exceedingly greater than they were just ten short years ago. It should be remembered these are only the losses paid and do not include all fidelity losses. Many are never reported to the police or to the insurance company.

It is not imperative that we know to the nearest cent the exact amount of the annual loss through fraud in all its various forms. But, it is imperative that management do something about it. We say "imperative" because there have been innumerable cases where the first fraud to be uncovered was of such major proportions as to destroy the company involved. A case comes to mind of a television manufacturer in New York. The wholesale thievery of parts by employees forced the company into bankruptcy. The disastrous effect on stockholders and the honest employees, who were depending on their jobs for their livelihood, is obvious.

In view of their moral and civic obligations, it is difficult to understand how so many executives lack any comprehension of fraud as a business threat, or knowledge of what to do to protect themselves and their companies against it. Certainly, in the case mentioned the majority of those in top management positions must have had a financial interest in the business, and they had at stake their reputation as experts in their field. Yet they jeopardized both by their complacency. So many times those in management positions are so busy doing what they feel to be important that they are totally oblivious to conditions which could cause the company's demise. Too often, it is only when their "house of cards" falls around them that they are brought to a realization that taking steps to prevent fraud is as important to the corporate existence as guarding against machine obsolescence, following current market trends, and increasing sales.

The "Human Respect" Factor

Next to this vincible ignorance regarding fraud, on the part of management, perhaps the greatest single reason for the current large scale thievery is, strangely enough, human respect. The office manager does not have the petty cash fund audited periodically, on a surprise basis, because the cashier may get the idea that he thinks she is dishonest. The plant superintendent does not have the trash containers spot-checked because that would be a reflection on the integrity of the porters.

ROBERT M. BLAKE, crime auditor, New York Division, Liberty Mutual Insurance Company, is a graduate of The Bentley School of Auditing and Finance, Boston. He was cost accountant for an industrial company before joining Liberty in 1936 as a payroll auditor.

In his present post since 1950, his duties include making crime prevention surveys for large crime policyholders and auditing claims on employee dishonesty, burglary, robbery and forgery.

The accounting department does not supervise the taking of the stockroom inventory because the stockroom is the purchasing agent's bailiwick and after all he is a trusted employee; hasn't he been with the company for 20 years? The foreman has not adopted a tool check system because he has a "swell bunch of boys" working for him, and then too it would be bad for morale—what would they think of him! So those who are charged with the responsibility of protecting the assets go blithely along, while the company is being defrauded. Only when the peculations reach fantastic proportions will a crackdown be brought to bear, a concentrated effort be made to apprehend the defaulter and plug the loopholes.

The primary responsibility for safeguarding the assets of business concerns and preventing or detecting errors and fraud rests with management. Maintenance of an adequate system of internal control is indispensable to proper discharge of that responsibility and protection against human weaknesses. The check and review, inherent in a good system of internal control, reduces the possibility that errors or fraudulent attempts will remain undetected for a prolonged period. It enables management to place greater

confidence in the reliability of the data made available to them.

Where is management falling short in this obligation to stockholders and employees? The obligation is twofold: the stockholders' investment must be protected and the employee should be given every possible degree of assistance to keep him honest. A capable employee represents a major asset to any business. By a dishonest act this asset is lost to the firm, and the employee becomes, in many instances, a burden to society.

Crime Prevention Survey Service

To assist in the problem of internal control, Liberty Mutual Insurance Company has a crime prevention survey service. It consists of a review of the accounting system, internal control, and physical safeguards for the purpose of uncovering weaknesses which may be conducive to losses. After more than 20 years of making these surveys, plus other experience gained from the auditing of actual crime losses, Liberty Mutual is in a position to point out situations which could lead to loss. It is not a service designed to uncover peculations, because our work does not contemplate an audit of the books or records. It is, however, a service of apprising management of the possibilities for loss under present system and procedures.

From our experiences the breakdown leading to eventual loss occurs with hiring procedures. Many organizations short-cut or make no attempt at investigation when hiring help. The following six points should be covered completely, before placing the applicant on the payroll.

1. Determine that the employee has accurately stated all previous dates of employment and reasons for termination at the various places.

2. Obtain a satisfactory explanation for all gaps in employment history.

3. Review history for any marked change in type of work.

4. Has the prospective employee moved from various locations? If so, why?

5. Require completion of a bonding questionnaire, and submit it to your bonding company for their investigation.

6. Investigate both personal and business references thoroughly. If replies are not received in a reasonable time, contact the references by phone. In many instances a valuable lead may be obtained from a phone call. Facts a person does not wish to put into writing will very often be revealed by personal contact.

The next procedure is to consider aspects of your accounting system that may permit manipulation without early discovery. The time to find loopholes and plug them is right now, not after the assets have been depleted.

Ways to Disclose Loopholes

How are these loopholes to be disclosed? Here are eight suggestions:

1. Many public accounting firms review internal controls as part of their annual audit.
2. Internal auditors and controllers are equipped to survey the system and make recommendations to management.
3. Alert employees, through a properly administered suggestion program, can contribute valuable information.
4. Substitution by supervisory employees during periods of illness and vacation, or rotation of other employees within the organization. During such periods of substitution, management should be advised of any questionable transactions. Inability to understand a transaction may point out the deficiency in accounting procedures.
5. No employee should be permitted to work overtime without advance approval by his immediate superior. In many instances, companies have paid time-and-a-half because the bookkeeper needed more than an eight-hour day to handle both the normal workload—and a manipulation.
6. Another vulnerable area is lack of proper segregation of various duties to prevent complete control of any one function by one employee. The cashier in charge of the petty cash fund should not be permitted to make advances without management approval of each voucher. At the time of reimbursement complete detail of expenditures and support vouchers should be submitted to the office manager or controller with the reimbursement check. Occasional audits of the fund should be made in the year by a member of the accounting department, on a surprise

(*Continued on page 40*)

Stapling-Collating Machines Clear Mountain of Institute Paperwork

THE EDISON Electric Institute is a national trade association which has as members some 200 investor-owned electric light and power companies throughout the country. In addition to administrative and association business, the Institute prints and mails hundreds of thousands of copies of printed materials to Association members and other organizations, groups and individuals. To help handle this "mountain" of paperwork, the Institute is now using two Bostitch BOSTOMATIC machines (Model B5E2J).*

Located in a compact area of the combination mailroom-print shop-stockroom, the Bostomatics are used in conjunction with two collating machines, in a side-by-side arrangement. Two operators sit at the collating machines; as sheets are pushed out, the operators take them and staple them together. (The Bostomatics automatically drive the staples into the work when it is inserted against the combination back gauge and switch release.)

The new stapling-collating machines supplant a manual operation in which a hand-operated office desk-type stapler was used. Previously, it required six men to handle the same amount of paperwork that two men now handle. "The new method is at least 50 per cent faster than the former system", notes Bruno Fleckenstein, Edison Electric Institute's supervisor of mailroom and print shop. In addition, "savings in labor and material costs constitute a 25 per cent cut over previous methods."

Besides faster production and cost savings, Mr. Fleckenstein observes, "the operation now takes much less space, making it possible to use the remaining area for more efficient printing and mail handling."

* Product of Bostitch, Inc., East Greenwich, R.I.

50 PER CENT FASTER than previous system—To help dispatch its mountain of paperwork, the Edison Electric Institute now uses two Bostitch BOSTOMATIC stapling machines to fasten reports, booklets, other matter. Coordinated with a side-by-side collating system, the Bostitch stapling method makes it possible for the compact operation to turn out as many as 10,000 stapled sheets an hour. Only two operators now are required to produce work that formerly required six men with the manual stapling system.

National Cash Register, Sales At High, Boosts Electronics

Consolidated net sales of all products and services of National Cash Register Company, of Dayton, Ohio, in 1959 totaled $419,064,000, compared with $393,746,000 in 1958, an increase of 6 per cent. Sales for the year were the highest in its history, the company's annual report shows. Net income of $19,076,000 also set a new record and was 23 per cent above 1958.

"The company has written off $60,000,000 for research and development in the five years since it has taken the electronic fork in the office equipment manufacturing road," noted chairman Stanley C. Allyn at a press conference in New York. "This is more than was spent for these activities during the entire previous 70 years' history of the company," he said. The greater part of this increased effort has been devoted to the development of electronics equipment, which includes the Post-Tronic banking unit, the Compu-Tronic accounting machine, and the 304 and 390 completely electronic computer systems. Mr. Allyn announced plans of the company for a nationwide network of data processing centers to make recordkeeping automation available to retailers, industrial and commercial firms, banks and other businesses. Centers will be opened this year in New York, Los Angeles and Dayton, he said.

Never have so many people lived so well, so far behind before.
—Changing Times

IBM Technique to Automate Manufacturing Cycle Control

MOS, new Management Operating System technique introduced by International Business Machines Corporation, combines into a single operating system all control of manufacturing cycle functions, from forecasting through operation evaluation. In MOS the output of one function becomes the input to the next through the medium of data processing. Existing data processing equipment is utilized and a single punched card will activate the complete processing of a production schedule order. The MOS concept is said to be adaptable to manufacturing concerns regardless of size.

At the IBM press preview of the MOS technique, Charles W. Perelle, president American Bosch division, American Bosch Arma Corporation, Springfield, Mass., reported savings at the rate of $120,000 annually in production costs, after only six months' utilization of MOS techniques.

New York Paint Store Failures at Decade Low

In 1959 there were fewer failures in exclusive paint store accounts of the New York City metropolitan market area than any other year since 1948, according to the report on the annual survey of insolvencies compiled from the records of the Paint and Allied Industries Credit Association, Inc., in collaboration with the credits and collections committee of the New York Paint, Varnish and Lacquer Association. Average liability of the seven 1959 insolvencies was down to an approximate average of $10,000 against an average of $18,000 for the year previous, and was the lowest average since 1955.

On the "Trend of Payments—Trade Sales Accounts" the survey showed 50.6 per cent of dealers paying promptly and discounting, 16.1 per cent not exceeding 30 days slow. In this category, the figures pertain to both straight paint stores and all who handle paints in addition to other products. The 1959 survey covers nearly 4,000 of such accounts. The Paint & Allied Industries Credit Association is affiliated with the New York Credit and Financial Management Association.

Los Angeles Equipment Show Will Open Doors November 1

From tiny dictating apparatus to huge photographic and reproduction plants, the latest developments in office, computing, and accounting machines, and related supplies, said to represent nine-tenths of the $4¼ billion-a-year industry, will be exhibited by 60 manufacturers at the Business Equipment Exposition in the new Memorial Sports Arena in Los Angeles, November 1-4.

Sponsoring the showing is the Office Equipment Manufacturing Institute.

Presidents and Charities

As goes the president—and executive committee—of a company, in contributions to civic welfare and charity drives, so goes the proportionate gift of the lowest paid employee, said Gordon Hanes, president Hanes Hosiery Mills Company, addressing the Charlotte (N.C.) Chapter of the Society for the Advancement of Management.

Fraud—Its Cost to Man and the Management

Broadest Varieties of Protection against Crime Losses Available

By **PETER A. ZIMMERMANN**
Assistant Secretary
The Surety Association of America
New York, New York

IT is high time that more attention be devoted to improving and increasing protection of business against the heavy losses caused by fraud and embezzlement.


P. ZIMMERMANN

Mr. John H. Zebley, Jr., former president of the American Institute of Accountants, says there are three principal safeguards that tend to minimize losses due to dishonesty. None of these is wholly effective without the others.

Control—Audit—Coverage

Internal control is perhaps the most effective preventive method, but even good internal control will not make it impossible for employees to defraud their employers. Independent audits discourage fraud and often uncover it, but they do not — as is sometimes mistakenly supposed — guarantee disclosure of all irregularities. Fidelity coverage is the means of recovering what may be lost in spite of management's best efforts to prevent irregularities.

The present types of fidelity bond coverage are designed to take care of the requirements of commercial concerns, no matter how varied their business activities may be or how large their scope of operations and number of employees. Blanket coverage applies to all officers and employees, and offers the best protection for the lowest cost in the history of this field of coverage.

Yet despite the attractiveness of these contracts coverage-wise and price-wise, we still find concerns suffering from under-insurance or being without any of this essential protection. While dishonesty and fire are the two major causes of loss to American business enterprise, employee dishonesty in one respect is to be more dreaded than fire. Fire usually makes its presence known immediately and often can be subdued before much damage is done. The dishonest employee, however, in many cases has brought his firm to the brink of insolvency by the time his depredations are discovered.

Insureds now have available to them through the services of their insurance counselors the broadest forms of protection against crime losses.

Individual—Combination—Blanket

These coverages are obtainable in individual policies in selective amounts, in combination policies containing coverages of the insureds' selection in amounts of their own choosing, and in blanket policies containing various coverages all in one form or blanket amount.

Loss of any kind of property, real or personal, caused by dishonesty of employees can be covered by either a Commercial Blanket Bond or a Blanket Position Bond. These forms automatically cover all of the insured's personnel, but the insured has a choice between the two forms because of certain differences in the amount recoverable thereunder in the event of a collusion or conspiracy loss caused by a group of dishonest employees.

A Broad Form Money and Securities Policy covers loss of money and securities by dishonesty of persons other than employees, destruction or disappearance and loss of property other than money and securities by safe burglary or robbery *inside the premises,* and loss of money and securities by dishonesty of persons other than employees, destruction or disappearance and loss of property other than money and securities by robbery *outside the premises.*

Losses from forgery of insured's name as maker, or alteration of amount of checks, drafts and the like, are covered by a Depositors Forgery Bond.

Loss of merchandise held for sale, furniture and fixtures by burglary or robbery of insured's private watchman and other related coverages are provided by a Mercantile Open Stock Burglary Policy.

Comprehensive Policy Available

One or more of these coverages can be combined under a Comprehensive Dishonesty, Disappearance and Destruction Policy in which the insured can obtain the equivalent of the separate coverages in selective amounts, and some or most of these coverages can be obtained under a new Blanket Crime Policy providing a single, blanket amount of coverage over all the exposures enumerated therein.

In fact, these coverages can be virtually tailor-made or custom-made to insured's specific requirements. All we ask the insured to do is to lend an ear to the words of their insurance man and to take his advice regarding the amount and type of coverage. Surely it must be agreed that it is better to have the coverage and the protection needed, before suffering a loss, than to rectify the inadequacy or absence of coverage after a loss.

Until recently it was often difficult to determine the amount of fidelity bond coverage needed to protect a firm adequately against embezzlement losses. Today there is a simple

PETER A. ZIMMERMANN, assistant secretary of The Surety Association of America, supervises commercial fidelity bond rating procedures. He started with U. S. Fidelity and Guaranty Co. in 1923. He teaches at Brooklyn College and the School of Insurance of the Insurance Society of New York.

Mr. Zimmermann is vice chairman of the Insurance Advisory Council, National Association of Credit Management, and a member of the insurance committee of the New York Credit and Financial Management Association.

formula by which this need can easily be filled. This formula is the result of a careful study, for a number of years, of employee dishonesty losses of $10,000 or more as reported to The Surety Association of America. The formula is based on consideration of two principal elements of a company's exposure to large embezzlement losses: (1) current assets, and (2) gross sales or income. These elements produce a Dishonesty Exposure Index which in turn indicates, within an average range, a company's minimum honesty insurance needs. The formula is contained in a booklet* published by The Surety Association of America.

The annual loss resulting from crimes perpetrated on businessmen has been variously estimated up to $1.5 billions, on the assumption that only one-third of all embezzlements are discovered and reported — and the number of such crimes is increasing.

Many companies that had been defrauded over a considerable period of time thought they had an adequate system of control. What happened was that the system had broken down at some point because of the difference between theory and practice. The lesson to be learned is that any system of internal control requires checking at least once a year.

Accounts Receivable

Situations that invite fraud in connection with accounts receivable exist where

1. The same person opens and posts incoming checks to accounts receivable.
2. Statements of customers' accounts are prepared and mailed without independent checking by the accounts receivable bookkeeper.
3. Customers are not asked to confirm their balances to someone other than the cashier or bookkeeper.
4. Customers' questions about their accounts are handled by the same person who posts accounts receivable.

Cash Receipts

Embezzlement of cash receipts could occur if

1. *Sales slips are not pre-numbered.*
2. *The same person who handles sales also balances the day's cash against sales slips or cash register tape, without being checked.*
3. *Daily receipts are not always deposited promptly and intact.*
4. *Records of cash receipts are not checked against duplicate deposit tickets.*
5. *Bank statements are reconciled by an employee who has access to cash or to records of cash transactions.*

Outgoing Payments

Fraud in connection with outgoing payments is possible if

1. Blank checks are not pre-numbered and carefully safeguarded.
2. Signed checks are returned for mailing to the one who prepared them.
3. Bills and supporting papers are not canceled by the signing officer to prevent reuse.
4. Bank statements are received by an employee who also handles cash or checks.

Purchases

There are many kinds of fraud in connection with purchases, and you may be inviting loss if you allow any of the following situations to exist:

1. *Payments are made without proof that goods have been received.*
2. *Bills are not compared with requisitions and/or purchase orders.*
3. *Materials purchased are not reconciled with inventory and materials used in production.*

Petty Cash

Here are some common practices which make it easy for an employee to steal petty cash.

1. Figures only are used, instead of writing the amount in words, as on a check.
2. Slips are written in pencil rather than ink.
3. Slips are not adequately checked before reimbursement and canceled to prevent reuse.

Payroll

Do any of the following circumstances, which facilitate payroll fraud, exist in your company?

1. *Persons preparing payroll also handle cash.*
2. *Attendance records are not maintained independently of the persons who prepare the payroll.*
3. *Checks are signed by someone who also has a part in preparing the payroll.*
4. *Canceled checks are not carefully examined for comparison of indorsements with signatures in employment records.*

Inventory

There is serious danger of thefts from inventory if

1. Physical inventories are not taken periodically and reconciled with perpetual inventory records.
2. The same person who handles perpetual inventory records also takes physical inventory.
3. An adequate plant security system is not in effect.

(Concluded on page 35)

*"How Much Honesty Insurance?" The Surety Association of America, 60 John St., New York, N. Y.

Guides to Improve Executive Operation

KEEPING INFORMED

UNIFORM COMMERCIAL CODE—Texts of two of the Code Sections affecting creditors: Article 2, Sales, and Article 9, Secured Transactions, are available, free, to NACM members, on request to Legislative Dept., National Association of Credit Management, 44 East 23rd St., New York 10, N.Y.

COMMODITY SURVEY 1959—Third in the series of current reviews of the world commodity situation prepared for the Commission on International Commodity Trade in the United Nations division of general economic research and policies, this survey discusses the extent to which the post '57/58 recession recovery has been reflected on commodity markets. 188 pages, including 90 tables and 23 charts. $2.50 copy, from Columbia University Press, 2960 Broadway, New York 27, N.Y.

INTERNATIONAL TELEPHONE DIRECTORY, 5th ed.—The two-volume directory is published in four languages: English, French, German and Spanish. Its 2,157 pages contain the names, addresses and telephone numbers of almost a half-million firms, individuals and services under some 4,500 coded business and professional categories. It has a worldwide circulation of over 200,000 and contains listings and advertisings of firms in 108 countries. Introductory section contains much useful information about placing calls and telephone statistics by countries and by cities. $20 the set. Order from International Telephone Directory, 186 East Ave., Rochester, N.Y., or its offices in New York, Chicago and Hollywood.

Informative reports, pamphlets, circulars, etc., which may be of interest to you. Please write directly to the publisher for them. CREDIT AND FINANCIAL MANAGEMENT does not have copies available.

To expedite receiving booklets described below in this column, address all inquiries concerning Efficiency Tips to CREDIT AND FINANCIAL MANAGEMENT, 44 East 23rd St., New York 10, N.Y.

EFFICIENCY TIPS

869—Financial, equipment, personnel and service advantages of truck fleet leasing are described in a new brochure from Berman Service Inc., Pennsburg, Pa.

▼

870—Colorful brochure shows wide variety of business furniture of General Fireproofing Co. installed in new home office company of one of America's great insurance companies.

▼

871—Types of insulated records equipment are illustrated in folder of Remington Rand which relates how Pentagon Building fire emphasized need for protection of vital records at point-of-use. Ask for SC 827.

▼

872—New attention-drawing, door-opening aid for sales representatives, the photographic business card in color, is subject of 6-page folder of Eastman Kodak Co., which describes how cards can be made.

▼

873—Data processing procedures performed in accounting department of florist with ten wholesale branches are described in application brief, form K20-1228 of International Business Machines Corp.

▼

874—Pencils for every office, workshop and drafting room use are shown and described in 24-page indexed catalog of J. S. Staedtler, Inc.

▼

875 — "Shortcuts to Accounting through Elimination of Repeat Writing," 16-page booklet of Charles Bruning Co., details and illustrates ways in which Bruning Copyflex can speed and simplify accounting.

BOOK REVIEWS

FACTORS IN SPECIAL FIRE RISK ANALYSIS—By William Durant Milne. $10.00. Chilton Co., Book Div., 56th & Chestnut Sts., Philadelphia 39, Pa. 165 pages.

• Important to all who own or manage factories, warehouses, department stores, public utility plants or other special use establishments, this volume stresses the interrelationship between field inspector reports and examining underwriters and covers occupancy hazards of buildings and their construction problems. The companies, public protection, automatic sprinkler protection are among subjects discussed in detail.

RECORDS RETENTION, a Practical Guide. 48 pages, flexibly bound. Single copy $5.00; three or more copies $4.00 each. Ellsworth Publishing Company, 314 Newcastle Road, Syracuse 4, N.Y. 1959.

• What the title says it is: a practical, compact guide toward a sound records retention program for business organizations, researched and written by the senior systems analyst of Sylvania Electric Products, Inc., at the company's Univac data processing center, Camillus, N.Y. Included are schedules of state and federal regulations governing records retention, along with concrete interpretation and advice.

Books reviewed or mentioned in this column are not available from CREDIT AND FINANCIAL MANAGEMENT unless so indicated. Please order from your bookstore or direct from the publisher.

W. J. BABIN

(Concluded from page 17)

It appeared that the construction of this building had not only tied up working capital but had absorbed so much of his time that collections on mortgages discounted were allowed to slide. The dealer found himself faced with several repossessions, and the finance company was ready to discontinue the lines, both wholesale and retail, that it had established for his account.

The dealer worked diligently, and with the reserves established for his account by the finance company, he was able to clear up this situation. However, he felt he had not had complete cooperation, and so he came to our credit department again for advice.

As the dealer had operated on a floor plan basis from the start, and since he was unable to carry all his receivables himself, we realized that we had to have him established with some other source of finance. We recommended him to another company, whose methods of operation seemed totally compatible with his operation. The new arrangement has proved completely satisfactory, even to the point where he now owns stock in it. His business has grown into one of the largest of its kind in the area and he now is also selling our electronics and floor covering lines. His latest statement showed a net worth approximating $150,000.

Here is an account which, from the beginning, was willing to go along with the advice and training offered by the sales, credit and administrative departments of his distributor. Had we not been able to find a solution to his problems, I am sure he would have gone elsewhere. The benefits from our assistance have been twofold. It has contributed to his growth and certainly has made a good customer for us.

Cash for Business to Grow On Is Outlook for a New Decade

The "broad base for growth" which was built in the 1950's "suggests strong orderly growth in the decade of the 60's," with "less pressure on credit supplies" likely to be accompanied by lower interest rates, improved employment and steady or declining prices," Tilford C. Gaines, assistant vice president Federal Reserve Bank of New York, told the 44th annual meeting of the National Industrial Conference Board. "If credit demands are less pressing, the monetary authorities will have less need to maintain pressures on the commercial banking system to prevent credit demands from being met through monetary inflation," he said.

While population as a whole will increase an estimated 25 per cent by 1970, "the real 'explosive' fact in this figure" is the expected growth of the 14-19 and 20-24 year age groups which, combined, will increase by 58 per cent in the '60's over the 1957 figure, "presenting to business its greatest opportunity and challenge," said J. Andrew Painter, vice president The First National City Bank of New York. Consumer credit volume of $84 billions is foreseen as an "area of possibility" by 1970, Mr. Painter said. Consumer credit outstanding at December 31, 1959 was at record high of $52 billions, bearing a ratio of 15½ per cent to total disposable income.

West Europe Competition To Be Felt by Americans

An expanding Europe "will provide both stiff competition and new markets for American traders in the decade ahead," declared Donald F. Heatherington, director European division, National Foreign Trade Council.

Foreseeing "marked economic growth and changes for Western Europe in the next ten years," he pointed to these effects on the United States: (1) intensified competition in world markets, both as sellers and as buyers; (2) greater competition in the U.S. home market; (3) new and attractive opportunities for U.S. capital investment, both direct and portfolio; (4) a wealthier Europe will mean another source of capital for the underdeveloped areas; and (5) enhanced opportunities for U.S. export sales, "although so far there has been little evidence to support the hopeful conclusion that these prospects will materialize or be realized."

Modernizing the Office

New Equipment to Speed Production and Reduce Costs

General-Purpose Punched Card Calculator

720 General-purpose high-speed IBM #609 solid-state ELECTRONIC CALCULATOR of International Business Machines Corporation can be used for all accounting and control applications, as well as engineering. Input and output are by means of standard 80-column punched cards. New machine combines functions of input, calculation, storage and output into single unit only 60″ long, 29″ wide, 50″ high. Other features are: non-sequential programming (many jobs formerly requiring multiple machine runs now can be compressed into a single pass); no air conditioning or special power lines required.

In Plain Sight

721 KLIP-ALL multiple-clip Wall Board visibly organizes and holds any type of working papers, is available in several sizes and styles of board to meet office, lab and shop needs. System can in many cases eliminate need for recordkeeping, posting and filing of workpapers. Device of L. D. Blehart Company is made of lightweight metal, comes with two brackets on back ready for flush mounting or suspension, has plastic holders for heading cards. Each style unit has various lined divisions; clips hold up to ¾ in. thick papers. Finish is baked-on gray enamel in hammertone style, with stainless steel frame.

Integrates Collating

722 New GBC-COLLAMATIC Electric desktop Collator is portable, weighs only 25 lbs., and can deliver automatically up to 1,800 collated sets an hour, notes maker General Binding Corporation. Integrated Paperwork System which is said to produce completely bound book of office material in 15 seconds, utilizing GBC's line of electric machines, is analyzed as follows: 1) assembly of pages by collating machine, 5 sec.; 2) pages punched by punching machine, 3 sec.; 3) pages bound in plastic binding by binding machine, 7 sec. In a few additional seconds, pages can be permanently sealed by GBC laminator, company adds.

Self-Powered Recorder

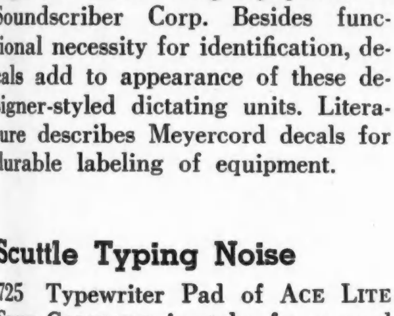
723 WALKIE-RECORDALL self-powered Conference Recorder-Transcriber of Miles Reproducer Company for on-the-spot recordings indoors or out, in car, train, plane or boat, will pick up and record within 60-ft. radius, maker says. Especially useful for conferences, interviews, dictation, device fits in briefcase; recordings may be made in or out of closed briefcase. There is no exposed microphone. Recording is continuous up to 4 hours on each side of safety film belt, which can be mailed.

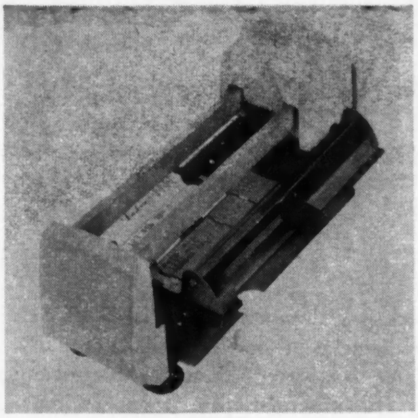
Durable-Marking Decals

724 MEYERCORD COMPANY Decal Nameplates are used for identification and proper operation of long-lived equipment, other items. Here Meyercord decal nameplates and markings (illustrated) are applied to new line of "Communicator" dictating and transcribing equipment of Soundscriber Corp. Besides functional necessity for identification, decals add to appearance of these designer-styled dictating units. Literature describes Meyercord decals for durable labeling of equipment.

Scuttle Typing Noise

725 Typewriter Pad of ACE LITE STEP COMPANY, in styles for manual and electric typewriters, is designed to reduce both noise and vibration. Springy air pockets deaden noise and serve as shock absorbers which prolong typewriter life, reduce finger-fatigue. Waffle design of base provides suction grip; machine can't creep or walk over pad's surface, maker says. Choice of six colors; pads also are available for adding and other office machines.





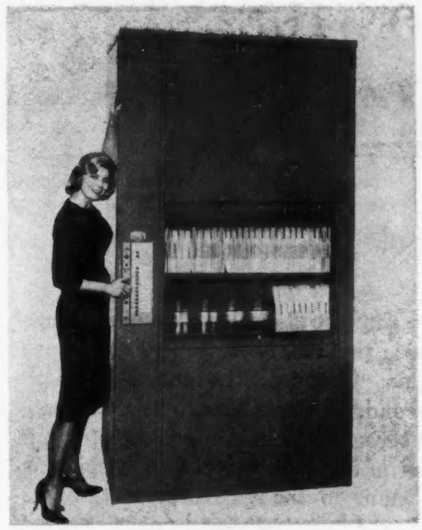
Imprint Any Credit Card

726 Small compact imprinter to accommodate all sizes of popular credit cards and business forms without adjustment has been introduced by DASHEW BUSINESS MACHINES, INC. The Dashew Datawriter 19x3 speeds up processing of transactions at retail level, eliminates necessity for several machines to handle cards and forms of different companies. Device operates with inked or rubber impression roller, handles both metal and plastic plates, mounts to any surface, vertical or horizontal, maker notes.

This department will welcome opportunities to serve you by contacting manufacturers or wholesalers for further information regarding products described herein. Please address MODERNIZING, Credit & Financial Management, 44 East 23rd St., New York 10, N.Y.

Diazo Copying Techniques Shown in Film by Bruning

Diazo copying techniques for use in numerous office applications that do not require costly electronic data processing equipment are demonstrated step-by-step in a sound-slide film on paperwork systems, presented by Charles Bruning Company. Included are Bruning COPYFLEX applications to repetitive writing areas such as order-billing, general accounting, production control. The company produced the film to answer questions from executives of 500 top corporations, polled on paperwork problems. Showings can be arranged by contacting local Bruning branches or by writing to Charles Bruning Company, Inc., 1800 W. Central Road, Mount Prospect, Ill.

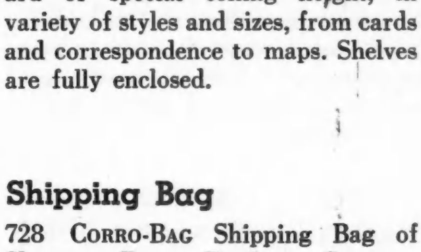


Pushbutton Files

727 With MOTORSHELF, motorized pushbutton filing unit of Wheeldex & Simpla Products, Inc., files come to user quickly at height specified. Overhead space, which is usually wasted, becomes usable and need for aisle space is reduced. With Motorshelf there is nothing to pull out; actual cubic foot storage space is maximum equipment size even under active working conditions, maker notes. Unit can be furnished in standard or special ceiling height, in variety of styles and sizes, from cards and correspondence to maps. Shelves are fully enclosed.

Shipping Bag

728 CORRO-BAG Shipping Bag of Sherman Paper Products Corporation is used by variety of businesses, from direct mail houses to department stores, even for shipping live goldfish. Single wall cushioning affords maximum protection without special inner wraps. Glued seam provides moisture, air, dust and tamper-proof protection. Stronger kraft fiber gives added security without increase in weight, a factor in postage expense. Gusset-type score permits bag to sit up for easy handling and inserting.



ON THE
Personal Side

FRANK C. BONURA

BERNARD REINER

EDWARD R. ADAMS

J. V. van PELT III

EDWARD R. ADAMS has been named vice president-finance Virginia-Carolina Chemical Corporation, Richmond. He began with the company 14 years ago as budget director and advanced successively to special assistant to the vice president, to assistant treasurer, and more recently to controller. He is a graduate of Harvard University graduate school of business administration.

BERNARD REINER, formerly assistant treasurer, has been advanced to treasurer of Fromm and Sichel, Inc., New York City.

JOHN V. VAN PELT III is vice president-finance and controller, Vulcan Materials Company, Birmingham. Prior associations were as controller for Kendall Company, Walpole, Mass. for ten years, assistant controller C&O Railroad to modernize railroad accounting, and New York office accounting manager for Arthur Andersen Company.

CLINTON L. ECKSTROM, JR. transfers from the Ditzler color division of Pittsburgh Plate Glass Company, Detroit, to serve as credit manager for the fiber glass division and plastics department of the paint division at Pittsburgh headquarters. He began with the company in 1948 as assistant to the credit manager at the merchandising division's Chicago distributing branch and in 1956 he became credit manager at Detroit. Mr. Eckstrom holds the doctor of laws degree of Northwestern University.

G. EARLE KILLEEN, special credit representative of The First National Bank of Boston, in New York, has retired after 46 years in credit. FRANK C. BONURA has succeeded Mr. Killeen.

Mr. Killeen began with the bank in 1945, when he organized the New York credit office for its factoring unit. From basic training with Fleitmann & Company from 1914-18, Mr. Killeen went with a silk company, later was credit manager for Brand & Oppenheimer, Inc. from 1936-44. He is past president National Institute of Credit and the 475 Club, and 40-year member New York Credit and Financial Management Association, in which he has served on many of its committees. Mr. Bonura, with the First of Boston since 1951, holds the Executive Award NACM Graduate School of Credit and Financial Management, Dartmouth '56.

R. A. LIEBIG has been advanced from credit manager to treasurer of Moorman Manufacturing Company, Quincy, Ill.

WILEY E. ARNOLD has been named general credit manager Rohm & Haas Company, Philadelphia, to succeed James C. Stretch. Most recently credit and office manager for the resinous sales division, Mr. Arnold will have responsibility for credit operations of the entire domestic company. He is active in the National Chemical Credit and Raw Material Credit Groups, New York.

JAMES C. STRETCH, former assistant treasurer and general credit manager of Rohm & Haas Company, Philadelphia, has become assistant corporate controller Vick Chemical Company, New York City. He had been with Rohm & Haas since 1942, becoming assistant treasurer in 1952, general credit manager four years later.

ROBERT E. WALDO has been appointed assistant treasurer Columbus & Southern Ohio Electric Company, Columbus. At the same time the appointment of ROBERT J. MORRIS as assistant controller was announced. Mr. Waldo, a 35-year veteran of the utility, had most recently been manager credit and collections department. Mr. Morris, a 24-year employee, was manager of the accounting department.

FRANCIS R. LANDAU has been named vice president Business Factors Corporation, New York City, wholly-owned subsidiary of Standard Financial Corporation. Mr. Landau, a director of National Federation of Textiles and advisory board member Gotham Bank of New York, is executive chairman of the Uptown Credit Group, Inc.

LAWRENCE E. WHITTIER has become controller-treasurer Pittsburgh Plate Glass International S.A., in Havana, Cuba. With the parent company since 1955, Mr. Whittier had from 1957 been chief accountant for the Milwaukee paint division.

GEORGE D. WECHSLER, formerly secretary-treasurer and chief financial officer Cormac Photocopy Corporation and Cormac Chemical Corporation, New York City, has been named executive vice president and a director. He continues as treasurer of the two Cormac organizations.

BOTHO LILIENTHAL, founder of both units and president from their inception, has become chairman of the board. MARTIN WORTMANN, JR., formerly executive vice president, steps up to the presidency of the two firms.

JACK F. JOHNSON, executive vice president, and VINCENT G. McDONAGH, secretary-treasurer, have been named to the board of Charles Bruning Company, Inc., Mount Prospect, Ill.

Robert A. Raggio has been appointed treasurer Universal Atlas Cement Division of United States Steel Corporation, New York. He succeeds Clarence A. Keeley who retired after 40 years with Universal Atlas. Mr. Raggio began with the company in 1926 as a mailroom messenger. The same year he filled a clerkship in the treasury department and advanced to the post of credit manager in 1946. Following a period with the American Steel & Wire Division, Cleveland, he returned to Universal Atlas in New York as assistant treasurer in 1957. He holds the Executive Award of the NACM Graduate School of Credit and Financial Management, Dartmouth (1960).

George E. Spencer has been appointed credit manager, Cincinnati district, United States Steel Corporation. He most recently was Chicago treasury department credit representative.

Alexander P. Raeburn has become treasurer Plume & Atwood Manufacturing Company, Thomaston, Conn. Formerly secretary-treasurer and director Seymour Manufacturing Company, Mr. Raeburn has served as vice president and secretary of the Waterbury Association of Credit Men.

Robert A. Burnham has been named assistant cashier in the credit department Wells Fargo Bank American Trust Company, at San Francisco head office.

Hal K. Halverson has become credit manager Calaveras Cement Company, a division of The Flintkote Company, San Francisco.

Harold J. Brandenburg, with Firestone Tire & Rubber Company of California since 1941, has been appointed controller to succeed Homer Ludwick, retired. Mr. Brandenburg began as field auditor and advanced to assistant controller in 1944.

Herbert G. Knortz has become controller Mack Trucks, Inc., Plainfield, N.J., and its subsidiaries. He formerly was assistant controller Royal McBee Corporation.

Robert I. Livingston has been named president and chief executive officer Walter E. Heller & Company, Chicago. Formerly vice president and director, he began with the company in 1937 on the staff of the general counsel. Walter E. Heller, founder and for 41 years president of the commercial finance firm, becomes chairman of the board.

E. Kent Damon, 41, has been named vice president, treasurer and secretary of Haloid Xerox Inc., Rochester, N.Y. When he became assistant treasurer in 1952 Mr. Damon was the youngest officer in the history of the company. The following year he was advanced to treasurer and secretary. A graduate of Amherst College and Harvard graduate school of business administration, Mr. Damon was with Tobin Packing Company, Fort Dodge, Iowa, before going with Haloid in 1949 as assistant to the controller.

E. K. DAMON

S. J. OECHSLE, JR.

S. John Oechsle, Jr., since 1958 executive vice president of Metalweld, Inc., Philadelphia, has been named president. J. H. Barber is secretary of the company, which has three divisions in Philadelphia and one in Tampa, Fla. Mr. Oechsle, a graduate of Lehigh University, began with Metalweld in 1947. He is past president Associated Equipment Distributors Philadelphia-Delaware Valley and chairman of its insurance committee.

Mr. Barber, a graduate of Wharton School, University of Pennsylvania, joined Metalweld in 1947 as controller. Earlier associations were with National Bank of Chester County & Trust Company (Pa.), E. I. duPont de Nemours & Company, and manager customer relations division Chef Boy-ar-Dee Quality Foods, div. of American Home Foods.

Melvin M. Nield, formerly assistant general credit manager, has been appointed general credit manager American Can Company, New York. In addition to his corporate responsibilities, he is general credit manager of the Canco Division. Mr. Nield was credit manager Marathon, division of American Can, for a number of years prior to transfer to the Canco division in 1958. Earlier he had been assistant to the vice president of Walter E. Heller Company. He succeeds A. W. Geier, retired.

In a series of moves at Joseph T. Ryerson & Son, Inc., George J. O'Brien has become credit manager Chicago plant. R. Kent Cox succeeds him as credit-office manager at the New York plant, and Harrison R. Weaver, formerly assistant credit-office manager, has become credit-office manager Buffalo plant. Robert J. Smith has been named assistant credit-office manager at New York.

C. Nolan Armacost, formerly chief accountant, has been advanced to credit and collections manager The Black & Decker Manufacturing Company, Towson, Md., to succeed Hugh J. Dunne, retired. Mr. Dunne continues in a consulting capacity. Mr. Armacost's career with B&D began in 1935 as cost accounting clerk.

Mr. Dunne, credit manager of the company since 1942, began as stenographic clerk in the purchasing department in 1920, advancing to assistant service manager before going into credit in 1930. He has served as director and committeeman in the Baltimore Association of Credit Management, Inc. and the Motor & Equipment Manufacturers Association.

Nicholas R. Delaney has been advanced to treasurer Conoflow Corporation, Philadelphia. He started with the company in 1954 as assistant treasurer and controller.

Donald W. Moller has been promoted to general credit manager Mohasco Industries, Inc., at Amsterdam, N.Y. headquarters. He continues as credit manager of Alexander Smith division.

Edward W. Dew, St. Clairsville, Ohio, has been advanced to manager of credits Wheeling Steel Corporation following election of William Doepken, formerly assistant treasurer and credit executive, to treasurer. Mr. Dew, who began as a mail clerk in 1928, became assistant credit manager six years ago.

CREDIT'S FIFTH "C"— COVERAGE

(*Concluded from page 15*)

serious loss as a result of a major fire, go out of business completely just because they do not have business interruption protection.

The importance of valuable papers and accounts receivable records cannot be minimized in the area of consequential losses. If such items are not adequately protected in safes and vaults, then insurance protection should be considered.

Your debtor, who is dependent, for example, upon special machinery or instruments built from blue prints in his possession at the time of a fire, would be delayed in getting back into operation until the engineering work had been done to reconstruct the blueprints. The cost of reproducing these blueprints is not covered under the property policy but it is cared for under a valuable papers contract.

If accounts receivable records were destroyed, there might not be any way the firm to which you sold goods on credit would know how much was owed by his customers. Sure, some money would come in, but would all of it be paid, or enough so that the creditors would receive what was owed them?

Accounts Receivable Insurance

If such records are not protected or cannot be reconstructed from information elsewhere, then accounts receivable insurance might be the answer. This would reimburse a concern for the difference between what was collected and what previous trends and records indicated should have been collected, less a nominal amount for bad debts. It is for this reason that at the time of a fire, if anything can be removed first, it is the accounts receivable records.

For those types of customers whose operations cause accounts receivable to be a major part of their total assets, it would be important to know whether they carried credit insurance on these receivables. If they already have such insurance, it would be a strong point in their favor; and if not, it might be worth inquiry to determine whether they have given the purchase of credit insurance serious consideration. Naturally the nature of the customers' business would determine whether or not they qualified for credit insurance protection.

> ***"Many times, property insurance is not enough, and business interruption coverage (also known as use and occupancy) should be carried by the debtor, not only against the perils of fire but also for the shutdown that may be caused by perils covered under the boiler and machinery contract."***
>
> **Ralph E. Brown**

Business Life Insurance

Business life insurance should more often enter into credit consideration. If death occurs to a principal, in so many cases provisions have not been made for continuing the business. Funds are not available and, without providing for eventualities, there may not be sufficient capital for discharging the debtor's obligations. You may be the creditor who has to suffer. In many instances it may be advisable to explore this situation for your own protection, in smaller concerns which are partnerships or individually owned.

Coverage—insurance protection—may be the last of the five C's in a credit consideration, but it should not be overlooked. The creditor who laughs last may be just the one who has examined sufficiently the debtor's program of insurance before a loss to protect himself—not only for the direct damages familiar to almost everyone of us, but also the consequential ones. He can then take a bow for a credit investigation job well done.

JOHN A. NORTH

(*Concluded from page 9*)

made. Supervisors, section heads and foremen must understand and believe in fire safety before they can pass on their enthusiastic support of a program to the rank and file.

It is not my purpose here to outline what a fire prevention program should be. It is rather to emphasize that fire prevention is not just one person's responsibility. It must be practiced by everyone. Management has an important stake in fire prevention, to eliminate the indirect losses which adversely affect business, the staff, and the community. The employees have a stake in protecting their jobs, their pay checks, and their families. The community also has a responsibility.

A planned program of insurance protection will provide the indemnity for direct loss. Only the concerted efforts of fire prevention engineer, management, employee, and public official, can prevent the indirect losses which must be borne by all.

DR. C. M. KAHLER

(*Concluded from page 13*)

surance. It is intended for businesses that must, if possible, continue to operate after damage to their properties even if such operations involve greatly increased expense. While business interruption insurance covers additional expenses to maintain operations, if the loss is thereby reduced, the intent of extra expense insurance is to cover such expenses to maintain operations even though the loss of earnings may not be reduced at all.

Continuance of business operations depends first upon the availability of substitute premises, machinery and other facilities. If, by utilizing substitute facilities at an additional expense no greater than that covered by extra expense insurance, the business can maintain the same rate of earnings as would have been realized had no property loss occurred, extra expense insurance may be a substitute for business interruption insurance. More often, however, operations can be continued only at a reduced rate and at reduced earnings in spite of extra expenses incurred.

In such instances both business interruption insurance and extra expense insurance are needed. If substitute facilities are unavailable, or if the business feels no compulsion to continue regardless of expense, business interruption insurance alone will be sufficient.

These have been some of the more important considerations involved in insurances to protect debtors, and, through them, their creditors, against loss of that important element of a debtor's credit—his earning power.

Legal Rulings and Opinions

New Sunday Closing Law of Virginia Ruled Constitutional

Constitutionality of Virginia's new Sunday closing law has been upheld in Hustings Court, Part 2. Judge M. Ray Doubles decided that the legislature did not inadvertently repeal the law. Judge Doubles previously had issued a temporary injunction restraining Richmond from enforcing a section prohibiting Sunday sale of food and pet supplies. He extended this injunction, pending the ruling on constitutionality.

Prorating Instalments

A taxpayer paid $900 for a note with $1000 balance outstanding to be paid in five annual instalments. When he received the first instalment he contended the full $200 was a return of capital and each subsequent instalment would be.

The tax commissioner argued that each instalment must be prorated between return of capital and discount income, in the ratio the entire investment bore to the whole discount. The District Court upheld the commissioner *(Phillips, 6 AFTR 2d 5137)*.

Principal and Interest

A stockholder-guarantor paid a bad note of his corporation. The court limited him to a nonbusiness bad debt deduction *(Putnam, 352 U. S. 82, 50 AFTR 502)*. He cannot deduct the full amount as an interest payment, said the Fifth Circuit Court. The reasoning: when a guarantor makes good a corporation's default (principal or interest) he becomes its creditor and his payment has the character of a loss on a debt rather than payment for use of money *(Nelson, 6 AFTR 2d 5150, affirming TC Memo 1958-179)*.

Monoxide Poisoning Case

While installing a gasoline pump, purchased from a fire department by a wholesale grocery corporation to help rid its basement of flood waters, a fireman had a dizzy spell and a week later suffered a heart attack.

The fireman sued the corporation, charging the heart attack was a direct result of carbon monoxide poisoning and that the company had been negligent by not providing sufficient ventilation. He recovered a judgment on the jury's verdict in his favor. The judgment was confirmed on appeal. (*Zuercher* v. *Northern Jobbing Co.* (Minnesota 1954) 66 N.W. 2d 892.)

Contractor's Liability

A contractor's employees put down strips of paper to protect the floors while replacing the tile in a bathroom, a common practice in the trade. The housewife slipped slightly on the paper, as did an employee. The workers warned the housewife that the paper was slippery but they continued to use it. On completion of the job they asked her to inspect it. She again slipped on the paper, fell and sustained injuries. She sued the contractor and employees, and the judgment was affirmed on appeal. (*Schance* v. *H.O. Adams* (California 1955) 280 P. 2d. 851.)

P. A. ZIMMERMANN

(*Concluded from page* 27)

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4. Employees are allowed to regard "petty" thievery as a trivial matter.

Securities

Among the situations which may lead to embezzlement of securities are these:

1. An individual is able to remove securities from their place of safekeeping without another person present.

2. Securities are not registered by the company.

3. Records of securities are kept by the same person having custody of them.

Benefits of Good Internal Control

Among the results of a good system of internal control are: discouragement of fraud because of the potential embezzler's awareness of the greater odds against indefinite concealment; more likely detection of fraud in early stages; cost of dishonesty insurance at a minimum through experience rating and overall low loss level; more reliable data for use in making business decisions.

Here are some of the elements of internal control which your certified public accountant will probably suggest whether your company is large or small. Disregarding suggestions would be at considerable risk.

1. A plan of organization that clearly establishes lines of authority and responsibility, that separates accounting functions as much as possible from operational functions.
2. A chart of accounts for classification of data in a way that will help produce consistent and meaningful reports.
3. Records and forms designed to be easily understood and to show clearly whether control provisions have been followed.
4. Sound practices, such as division of duties so that no one person will handle a transaction from beginning to end.
5. Personnel selection and training which will tend to eliminate applicants of poor character and to encourage faithful observance of established procedures.
6. Supervision and enforcement of the plan.

Despite good control, however, you are still in danger of loss due to collusion or a steal-and-run type of fraud. Some people steal. They always have. Hence the necessity of fidelity bond coverage.

Tri-State Women's Conference

Workshop discussion and an address by an author-humorist headline a luncheon meeting which will bring credit women of Philadelphia, Baltimore, Pittsburgh and New York to the Tri-State Conference at the Essex House in Newark, with the New Jersey Credit Women's Group as host. In charge of reservations is Mrs. Ann Sornstein, Central Paper Co., 418 Washington St., Newark 2, N.J.

"Fire usually makes its presence known immediately and often can be subdued before much damage is done. The dishonest employee, however, in many cases has brought his firm to the brink of insolvency by the time his depredations are discovered."

P. A. Zimmermann

Faculty and Students at Eleventh Session of NACM Graduate School at Dartmouth

48 Receive Executive Award at Dartmouth

FORTY-EIGHT representatives of companies in 15 states received the Executive Award at commencement exercises of the eleventh annual session of NACM's Graduate School of Credit and Financial Management at Dartmouth College, Hanover, N.H.

Miss Virginia E. Starke, credit manager of Union Bag-Camp Paper Corporation, New York, won the American Petroleum Credit Association Award for having written the best Management Study Report. Her topic was "A Study of Investment Portfolio Management of the Union Bag-Camp Paper Corporation".

Charles S. Ross, product credit manager, E. I. du Pont de Nemours & Co., Wilmington, Del., received the Graduate School Alumni Meritorious Award for Leadership.

"Explore Your Potential; Exploit Your Opportunities!" was the subject of the graduation speaker, Ben F. Edwards, Jr., vice president and president's assistant-personnel, Bank of America NT&SA, San Francisco. Mr. Edwards, past president of the NACM Credit Research Foundation, which conducts the Graduate Schools at Dartmouth and Stanford University, was introduced by O. E. Barnum, treasurer of American Bridge Division, United States Steel Corporation, Pittsburgh, chairman of the administrative committee of the Dartmouth session.

Raymond Rodgers, faculty member and professor of banking at New York University's graduate school of business administration, presented the candidates, who received the diplomas from Orton H. Hicks, M.C.S., vice president of Dartmouth.

Mr. Barnum (Class of 1949) presented the Alumni Award to Mr. Ross, and William P. Layton, executive director of the Graduate School, who presided, announced the winner of the APCA Award, which will be presented to Miss Starke at the 65th Annual Credit Congress next May at Denver.

The graduates are:

CALIFORNIA: *William E. Harris,* district training officer Bank of America NT&SA, San Francisco; *James A. Horsburgh,* vice president Wells Fargo Bank, San Francisco; *Ray W. O'Brien,* assistant cashier Bank of America NT&SA, Los Angeles; *William Robertson,* assistant vice president Bank of America, NT&SA, San Jose.

COLORADO: *Roy H. Jordan,* assistant treasurer Frontier Refining Co., Denver.

CONNECTICUT: *Roland W. Will,* man-

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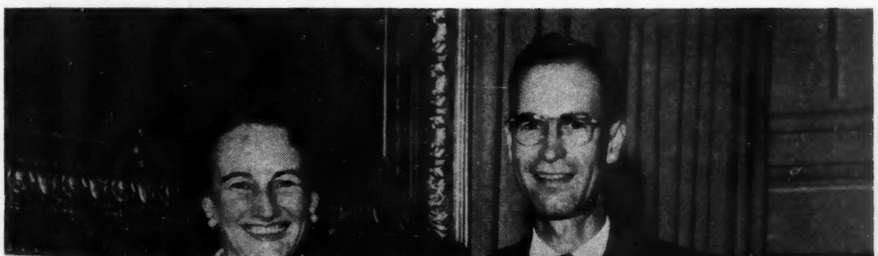


HONORED at Dartmouth. Miss Virginia E. Starke, credit manager of Union Bag-Camp Paper Corp., New York, won the American Petroleum Credit Association Award for having the best Management Study Report. The topic was "A Study of Investment Portfolio Management of the Union Bag-Camp Paper Corporation." Charles S. Ross, product credit manager, E. I. du Pont de Nemours & Co., Wilmington, Del., received the Graduate School Alumni Meritorious Award for Leadership.

ager-distributor finance, Housewares Division, General Electric Co., Bridgeport.

DELAWARE: *Charles S. Ross*, product credit manager E. I. duPont de Nemours & Co., Wilmington.

GEORGIA: *George M. Crumer*, credit manager Happy Valley Farms, Inc., Rossville.

ILLINOIS: *Delbert C. Purdy*, district credit manager United States Steel Corp., Chicago; *Louis Stoskopf, Jr.*, credit manager Victor Chemical Works Div., Stauffer Chemical Co., Chicago.

INDIANA: *Henry A. Best*, assistant treasurer Bantam Bearings Div., The Torrington Co., South Bend.

MASSACHUSETTS: *William A. Frost*, assistant credit manager William Carter Co., Needham Heights.

MICHIGAN: *Louis B. Henderson*, district credit supervisor The Ohio Oil Co., Lansing; *Alex M. Johnston*, regional credit manager Standard Oil Co. (Ind.), Detroit; *Gordon K. Rouze*, assistant credit manager Great Lakes Steel Corp., Detroit.

NEW YORK: *Charles W. Anderson*, credit and collection manager Remington Rand Div., Sperry Rand Corp., Buffalo; *Otto C. Becker*, credit manager, Eastern Area, American Can Co., New York; *A. Bruce Brackenridge*, assistant treasurer Morgan Guaranty Trust Co., New York; *Paul R. Burgdorf*, division credit manager Shell Oil Company, New York; *Jack T. Connaughton*, assistant manager The First National City Bank of New York, New York; *Ralph M. De Gilio*, credit manager Syracuse Supply Co., Syracuse; *Thomas C. Dittrich*, credit inspector-comptroller div., First National City Bank, New York; *James H. Donaldson*, manager-eastern credit office, Union Carbide Corp., Long Island City;

Charles M. Fiske, divisional credit manager American Machine and Foundry Co., New York; *Walter E. Flinch*, assistant secretary Chemical Bank New York Trust Co., Long Island City; *Dale Y. Freed*, assistant vice president The Hanover Bank, New York; *Darwin L. Gillett, III*, assistant secretary Chemical Bank New York Trust Company, New York; *William E. Guinan*, assistant credit manager American Cyanamid Co., New York; *Robert W. Hertzel*, manager First National City Bank of New York, New York; *Walter S. Hunt*, assistant manager-eastern credit office, Union Carbide Corp., Long Island City; *Richard T. Kent*, assistant treasurer McKesson & Robbins, Inc., New York; *Louis A. Kollander*, assistant manager The First National City Bank of New York;

Stuart McCarty, vice president The Hanover Bank, New York; *Harold V. Mendelsohn*, assistant cashier The First National City Bank of New York; *Albert J. Nathanson*, general credit manager Lever Brothers Co., New York; *Robert A. Raggio*, assistant treasurer,* Universal Atlas Cement Div., U.S. Steel Corp., New York; *Virginia E. Starke*, credit manager Union Bag-Camp Paper Corp., New York; *Robert J. Wilbur*, assistant vice president Morgan Guaranty Trust Company of New York;

OHIO: *James M. Cotner*, assistant district credit supervisor The Ohio Oil Company, Findlay; *Richard D. Logan, Jr.*, credit advisor Armco Steel Corp., Middletown.

OKLAHOMA: *Robert L. Cowan, Jr.*, area credit manager Oil Well Supply Division, U.S. Steel Corp., Tulsa.

PENNSYLVANIA: *Harry E. Barnfather*, staff assistant United States Steel Corp., Pittsburgh; *Robert B. Eberle, Jr.*, district credit manager U.S. Steel Corp., Pittsburgh; *William B. Newkirk*, general credit manager Armstrong Cork Co., Lancaster.

VIRGINIA: *William H. Bassett, Jr.*, assistant general credit manager Reynolds Metals Co., Richmond; *Victor A. Bell*, credit manager Gwaltney, Inc., Smithfield; *James J. Fox*, manager Reynolds Aluminum Acceptance Corp., Richmond.

WISCONSIN: *Calvin W. Gross*, assistant to credit manager Briggs & Stratton Corp., Milwaukee.

*Since promoted to treasurer.

NEWLY ELECTED DIRECTORS ***of the Lubbock (Texas) Wholesale Credit Association. Seated (l to r) George Gordon, W. C. Williams, Hollis Ford; standing, Aubrey Faulkner, Sr., Merle Routzon, Phil Price and David Rodgers. Not in picture: director Walter Stephens and president Troy Myers.***

Life Underwriters Ask Views Of Candidates on Insurance

The National Association of Life Underwriters has asked both Presidential candidates for expressions of their views on Social Security and the private life insurance business.

Albert C. Adams, chairman of the NALU committee on Social Security and general agent for John Hancock Life in Philadelphia, in the open letter quoted Walter P. Reuther, AFL-CIO vice president, as having told the Senate finance committee in 1950 that "if we can get security at the federal level for everybody, including our own people, there will be no need for the private plans".

C. P. McCormick Is Awarded Gantt Medal for Management

Charles P. McCormick, chairman of the board, McCormick & Company, Inc., Baltimore, has been awarded the 1960 Henry Laurence Gantt Medal of the American Management Association and The American Society of Mechanical Engineers.

James F. Welsh, 1958-59 vice president, eastern division, National Association of Credit Management, is general manager of the McCormick Division of the company.

Loans for Shopping Centers For Small Businesses Only

A program of loans to local development companies for construction of shopping centers to be occupied exclusively by small businesses has been innovated by the SBA.

Loans up to $250,000 for each small business to be aided may be made to local development companies. There are 3,200 such concerns.

Enters Leasing Field

Standard Financial Corporation, New York finance, factoring and commercial instalment banking company, is entering the equipment leasing field with formation of SFC Leasing Corporation.

Deaths

Leland Hadley, Chicago, Dies; Was NACM Director 1956-59

Leland T. Hadley, assistant secretary and credit manager of Goodman Manufacturing Company, Chicago, and past director NACM, died after extended illness.

Graduate of Earlham College and the University of Chicago law school, Mr. Hadley also held a certificate in advanced accounting from the Wharton School of Commerce and the Fellow Award of the National Institute of Credit.

In the Chicago-Midwest Credit Management Association he had served as president and in other offices. He was elected NACM director for a three-year term at the 60th Credit Congress in Cincinnati in 1956. He had been a member of the National since 1923.

James Sprague

James Sprague, 1918-19 president of Credit & Financial Management Association, Minneapolis, died recently.

Arthur N. Klebes

Arthur N. Klebes, 64, executive vice president of Smith & Klebes, Inc., and a director of Northern Connecticut Division NACM, died in New Britain General Hospital. He had been active in the industrial supply field since 1915 when he joined Fairbanks Company in Hartford.

Seven Guilty in Mail Fraud; Sentences Total 25 Years

Prison sentences totaling 25 years have been imposed upon seven defendants by Judge Robert E. Tehan in Federal Court, Milwaukee, in the Scanlon Radio and Music Shop mail fraud case. NACM's Fraud Prevention Department began its investigation in October, 1958 at Milwaukee, Chicago and Detroit, and evidence developed was immediately turned over to the FBI.

Four defendants received four-year terms on conviction of transporting, in interstate commerce, property obtained by fraud. Two were sentenced to three years on pleading guilty to using the mails to defraud, and the seventh prisoner will serve three years on a plea of guilty of conspiracy.

C. H. MOELLENBERG (right) of Toledo, "Credit Man of the Year" of The Credit Association of Northwestern Ohio and its past president, is congratulated by the guest speaker, E. W. Morris (left), treasurer Bethlehem Steel Co., and John E. Taylor, credit manager Surface Combustion Corp., the association's new president. Mr. Moellenberg is vice president and treasurer of McGranahan Distributing Co.

TOLEDO BLADE PHOTO

D. C. Hanna Is Chicago-Midwest Secretary-Executive Manager

David C. Hanna has been appointed secretary and executive manager of The Chicago-Midwest Credit Management Association, of which Orville B. Tearney, manager of credits and corporate insurance, Inland Steel Company, is president.

D. C. HANNA

Mr. Hanna, Ph. D., received his bachelor of science degree in education from Ohio State University in 1943, entered World War II service, returned to Ohio State and in 1946 obtained his master's degree in education and vocational guidance and personnel. In 1950 he received his doctorate degree, majoring in administration and educational research.

For a year Mr. Hanna was assistant director of the Ohio Citizens Commission for the Public Schools, Inc., then from 1951 to 1956 he served as director of research in Springfield, Ill., schools. He was manager of the education department of the Illinois State Chamber of Commerce when he was named to the association post.

Accounts Receivable Payments Improve a Bit in 2d Quarter

Payments of accounts receivable improved slightly in the second quarter, as did the median percentage of accounts more than 90 days past due, but the general condition of receivables was somewhat less favorable than at mid-1959, says NACM's Credit Research Foundation, Inc., in its quarterly national survey.

For full details write the Foundation at 44 East 23rd Street, New York 10, N.Y.

$2 Billions for Research

Research into management, financing and operation of small businesses is the objective of 51 grants totaling about $2 billions announced by the Small Business Administration. The largest single business loan by SBA—a $1 million five-year transaction—is to the Business Development Corporation of North Carolina.

Employee Dishonesty Can Ruin You!

(*Continued from page 23*)

basis. The custodian of the fund should not control cash receipts and should not be an authorized check signer.

7. Purchasing procedures should be brought under close scrutiny. The purchasing agent should have no control over the receiving department and should not have final approval of invoices for payment. Receiving reports should go directly from the receiving department to the accounting department, for comparison with copies of the purchase orders and invoices.

8. Often neglected is proper inventory procedure. Many companies go to great length to maintain perpetual inventories but rely on an annual inventory to verify accuracy of the records. It should be the duty of an individual, not connected with manufacturing, receiving or shipping, to make occasional physical checks on the quantities of various items on hand, for comparison with perpetual inventory records.

For a review, return to the four headlines mentioned earlier and note the procedural deficiencies as reported in the newspapers.

"Brand Wall Streeter 270 G Gambling Thief"—The defaulter in this case was stated to be a Wall Street veteran of 31 years with a yearly salary of $18,000. He was in charge of I.B.M. equipment for the firm. His scheme was to take off a certain sum from an I.B.M. card representing income to the company from interest charged on margin accounts. This amount would be added to his own or his wife's trading accounts at the firm. He would then buy stock and receive a company check when he sold it. These substitutions were made when no one was in the office, sometimes by showing up in the office at 5:30 A.M. and on Sundays. This manipulation was discovered when the firm decided to make an audit of its employee brokerage accounts. Here is an excellent example of a trusted employee putting in unsupervised overtime.

"Hi Living Bookkeeper Deflated"—In this story, the bookkeeper was paid $135 a week and lived in a $100,000 home with her husband, a successful local merchant. The employer said that in her capacity as head bookkeeper she had authority to sign checks for the company and was authorized to use a facsimile signature plate bearing the name of the company president. Also, she had access to all cancelled checks returned by the bank and thus was able to destroy checks she had forged. She would then up-date previously cancelled legitimate checks in the same amounts as those she had forged. Proper diversification of duties could have prevented this loss. As preparer of checks she should not have been an authorized check signer and should not have had access to the president's signature plate. Another employee should have received the bank statements with the cancelled checks and made the bank account reconciliation.

"Stamp Clerk Indicted In Stickeroo"—This loss involved a manipulation of postage meter refills by a $62 a week mailroom clerk. The clerk would go to the post office twice a week with a $1,000 certified check, have $500 added in the postage meter and purchase $500 in stamps of various denominations. The stamps were then sold to stamp dealers at a 10 per cent discount and the proceeds pocketed. Though the loss ran over $500,000, the clerk was charged with thefts totaling only $180,000, due to the statute of limitations. This loss could have been prevented by two simple steps; (1) checks should be drawn payable to Postmaster and show purpose of issue on their face, as: "For Postage Meter Refill" and, (2) require the clerk to turn in the postage meter receipt obtained from the post office to the accounting department to support the amount of the check.

"Torch Yeggs Get 5 Gs And The Building Burns"—Here we have a case of carelessness with tools by an employee and by burglars who obviously had not been adequately trained in the use of acetylene equipment. After a fire in an automobile dealership was put out, two acetylene tanks and a length of hose were found in the ruins. The end results of this burglary were: the combination cut from a 3′ x 3′ x 5′ safe, $5,000 in cash and $10,000 in checks removed from the safe, the one-story mezzanine office building burned out to the point that the roof collapsed. Five new cars and $45,000 in parts were destroyed, partial damage was done to eight other new cars, and damage by water and smoke to 150 autos and four trucks in an adjoining lot. This was all caused by employee failure to remove the acetylene torch heads and place them in security before closing the premises for the night.

Forgery of Checks

No discussion of this type would be complete without touching on the subject of forgery. One magazine recently reported that check frauds are costing the American public $400 millions a year. More than 60 million checks are cashed by Americans every banking day and more than $150 in checks is handled for every dollar in cash.

To prevent loss by forgery, several basic rules should be strictly observed. All supplies of checks should be kept under lock and key when not in use.

. . The current supply should be locked in a desk or cabinet overnight and reserve supplies should be locked in a vault or in a physically separated area of the stockroom under the control of two responsible employees.

. . All checks should be prenumbered by the printer and a numerical sequence record maintained. All spoiled checks should be retained for audit purposes, and no unnumbered checks should be provided for substitution.

. . Checks should be so prepared as to avoid a space between the dollar sign and the first digit. Also, check protector should be used on all checks before presentation for signature.

(*Turn to page 42*)

"In many situations we have found management complacent," says Robert M. Blake. "They feel that their raw materials are of little value to anyone but themselves, and the manufactured product is for highly specialized use and therefore has no ready market."

He cites case histories to show how mistaken they are.

CALENDAR OF EVENTS IMPORTANT TO CREDIT

FORT WAYNE, INDIANA
September 22-23
Great Lakes Regional Credit Conference, including Illinois, Indiana, Michigan and Wisconsin

ST. PAUL, MINNESOTA
September 23-24
North Central Credit Conference including Minnesota, North Dakota, Manitoba

DENVER, COLORADO
September 25-28
46th Annual Fall Conference of Robert Morris Associates

NEW YORK, NEW YORK
September 29-30
New York Credit Management Workshop

NEW YORK, NEW YORK
October 9-12
36th Annual Conference of American Petroleum Credit Association

ATLANTA, GEORGIA
October 12-14
Annual Southeastern Credit Conference, covering Tennessee, Mississippi, Alabama, Georgia, Florida, South Carolina, North Carolina, Louisiana

LOUISVILLE, KENTUCKY
October 14-16
Twentieth Annual Midwest Credit Women's Conference

One nice thing about silence is that it can't be repeated.
—Gary Cooper

MADISON, WISCONSIN
October 18
Wisconsin Statewide Credit and Business Conference.

DES MOINES, IOWA
October 19-21
Tri-State Credit Conference, representing Iowa, Nebraska and South Dakota

SAN DIEGO, CALIFORNIA
October 20-21
Pacific Southwest Credit Conference, including California, Arizona, Utah, Colorado, Nevada

BALTIMORE, MARYLAND
October 20-22
NACM Eastern Division Credit Conference

PHOENIX, ARIZONA
October 24-26
Annual Meeting of Western Division Secretary-Managers

CINCINNATI, OHIO
October 27-28
Ohio Valley Regional Credit Conference, including Ohio, Western Pennsylvania, West Virginia, Kentucky and Eastern Michigan.

SEATTLE, WASHINGTON
March 15-17, 1961
Conference of the Credit Executives of the Pacific Northwest, including Idaho, Oregon, Washington, and British Columbia

Experience is one thing you can't get on the easy payment plan.
—Proverb

DENVER, COLORADO
May 11-13, 1961
NACM Secretary-Managers Annual Conference

DENVER, COLORADO
May 14-18, 1961
65th Annual Credit Congress

Women Bank Officers Are Increasing, Survey Shows

Women bank officers and directors in the United States now number 12,506, of whom 164 are presidents of their banks, notes *The Woman Banker*, official publication of the National Association of Bank Women. Women constitute 10 per cent of the officer-population in banks, according to the association's research committee.

Personnel Mart

Market Research Assistant

DESIRE POSITION as Market Research Assistant to management. Well acquainted in appliance and related industry nationwide. Twelve years in Credit and Sales Management positions for AaAl Manufacturer plus ample supporting experience in supplement research assignments. B.A. degree Marketing. Age 44, married, will travel. $10,000. CFM Box #514.

Credit Executive Available
Experienced Foreign Trade

EXCELLENT 12 year credit management background. Manager of large credit department for over 4 years. Handled multimillion dollar export-import volume. Opened new overseas markets. College grad—single—33. Free to travel extensively and relocate immediately. CFM Box #515.

Industrial or Banking

CREDIT AND ACCOUNTS RECEIVABLE MANAGER—Age 34, 6 years experience in Industrial credit work, 2½ years in Banking. Desires responsible position in industrial credit management or banking. College graduate, degree B.S. commerce, majored finance. Willing to relocate. Salary reasonable. Résumé and references available on request. CFM Box #516.

EMPLOYEE DISHONESTY

(Concluded from page 40)

. . In using check-signing machines, dual control should be established with each individual holding a key to the machine. The keys should be locked in separate compartments in the safe when the machine is not in use. Dual control should also be established over daily reconciliation of the number of checks run and the machine meter reading.

. . Obsolete supplies of checks should be destroyed immediately when banks are changed or the check form is altered.

. . In the case of payroll checks, it is advisable to limit each check to a maximum amount such as $200 and require a countersignature when this amount is exceeded.

. . Unless there is a separation of check issuance and bank reconciliation procedure in your organization, we suggest that your accountants make the monthly bank account reconciliation and that they have primary access to bank statements and canceled checks. In the event a preliminary reconciliation is made by an employee, or an employee has access to the statement, the effectiveness of this procedure is lost.

The problem of employee defalcation is not limited to those in clerical or management positions. It is potentially present with every employee in the organization, and persons responsible for internal control must recognize this fact. Added to the possibility that your employees may take advantage of weaknesses in the system is the ever present hazard of collusion with outsiders.

In many situations encountered in our surveys we have found management complacent. They feel that their raw materials are of little value to anyone but themselves and the manufactured product is for highly specialized industrial use and therefore has no ready market. Two such cases come to mind.

Containers Never Delivered

In one instance, a claim was filed where the receiving clerk was in collusion with a supplier of containers and signed for containers that were never delivered. As this was an overhead item, controls were neglected. At the end of the fiscal year the annual audit revealed that container costs had increased over $50,000 without a corresponding increase in material produced and shipped.

In the second case, a cabinet manufacturer suffered a substantial loss due to acceptance of local custom. In the area where his factory was located it was standard practice for lumber suppliers to drive into the storage yard at their convenience and pile the lumber they had to sell without supervision. The supplier would leave a load slip in the mail box for the receiving clerk, who was also a lumber grader. The clerk would measure and grade the lumber and pass this information with the load slip to the accounting department. An uncle of the clerk supplied him with load slips but did not supply the lumber. To cover this manipulation, the clerk made out false grading tickets and, together with the false load slips, sent them to the accounting department to support payment of a fraudulent bill. As there was no perpetual inventory maintained, this manipulation went undetected until a physical inventory was taken at the end of the year. Loss amounted to $250,000.

Plant Security Important

In line with the employee dishonesty exposure at office level, plant security is a matter of paramount importance. Supervisory employees or guards should be placed at designated exits during shift changes and gate passes used for any articles being removed from the premises. Lunch boxes and bags should be subject to inspection when passing the guard. If employees are permitted to leave the plant at lunch time, the same procedure should be followed. Also, employees' cars should be parked in an area separated from the plant by a fence.

Tool cribs should be supervised at all times and a requisition system used for all withdrawals. Tools and supplies can account for a substantial annual loss. As one plant superintendent stated, if you can only show us how to control our paint brushes your call will be worthwhile. This company issued paint brushes to employees to clean their machines. They estimated that in one year they "used" enough brushes to paint the plant building five times. At another plant, a substantial quantity of refrigerator enamel was missing.

"In view of their moral and civic obligations, it is difficult to understand how so many executives lack any comprehension of fraud as a business threat, or knowledge of what to do to protect themselves and their companies against it."

Robert M. Blake

A challenge to management concerning employee dishonesty, and the area in which it may occur, is ever present. We do not advocate that you constantly look over employees' shoulders. On the other hand, they should not be lulled into complacency by the fact no defalcation has been discovered in years.

In many instances on completion of a survey, when we make recommendations for changes in systems and procedures, we are told the adoption of some specific recommendations would involve an expense that management would rather assume as a "calculated risk." How can management calculate a risk? If the risk is present it should, if possible, be eliminated. Also, time and again we have made recommendations to change procedures only to have them rejected with this: "We trust our employees." True, you must trust your employees, and we know some 99 per cent of people are honest. The 1 per cent that do fall by the wayside either "borrow" without authorization or discover that an honest mistake, undetected, can be repeated for personal gain. We have been called back on many accounts to determine the amount of a loss that could have been prevented if certain of our recommendations had been adopted. In some instances, this could have been accomplished by a realignment of employees' duties, requiring no additional expense.

Cummins-Chicago Corporation reported last summer that fraud loss runs 2½ times fire losses, that fraud losses exceed $1½ billions and fire losses $650 millions. Of the fire losses, 50 per cent are residential and 90 per cent are insured. In contrast, only 5 per cent of the fraud losses are being covered. This points out the need for a review of crime insurance by all business. A substantial fidelity loss could be fully as disastrous as a major fire. Either can materially drain the assets of an inadequately insured organization to the point of business failure.

Why and How Salesmen Help with Collections

Bulletin to Sales Representatives of Wholesaler Produces Results

SALESMEN *do* help with collections in the operations of Charles Millar & Son, Inc., Utica, N.Y. One reason the program is successful, Bert H. Davis, vice president and treasurer, writes us, is a bulletin issued to the sales representatives. The suggestions "apply to a wholesaling operation and are pointed most directly to the type of business in which an owner who buys, sells and collects is the person our salesman usually deals with."

Emphasis is on the "Why", Mr. Davis explains, because "my concern with presenting the motivation before you try to detail methods has been growing with the years."

Herewith the text of the bulletin:

WHY and HOW a Salesman Helps with COLLECTIONS

WHY?

1. To assist the customer in operating in a business-like way.
2. To increase your own sales and profits. Because, when a customer's account is in good current condition
   a) He buys with more confidence, feeling sure that he can take care of his present purchases on time and
   b) You sell him with less difficulty and in larger quantities because you know his account is in such condition that it is good business to encourage him to place larger orders than would be the case when he is behind in his payments.

HOW?

A business like ours approaches a customer with two hands, one hand to pick up orders and the other hand to receive checks. A sales representative, for the reasons already mentioned, is directly interested in this two-handed character of a successful business. The salesman's only real problem is to talk about the money end of our business with confidence and assurance, always being tactful and even, at times, mildly humorous in his approach to the customer.

1. A good lead to get the customer talking about the whole subject of payments is to ask him, "How are collections?" This will often result in a comment by the customer that he expects to receive certain payments soon and will be sending us a check as soon as he receives them. This sets up in his mind a schedule for paying us which he might not have thought about at all if the subject of collections had not been mentioned.
2. When the salesman has reason to believe that a customer is behind on payments, it is simply good business to suggest when receiving an order that he would also like to take or send a check for some portion of the account to the office along with the order. The salesman can use the comment appearing above about a successful business having two hands, one for orders and one for checks. We find some customers of ours repeating a comment like this when they deal with their trade.
3. Particularly when quoting a customer who does not always discount, it is a good idea to say "This will cost you $400.00 but, of course, with the cash discount that would be only $392.00." Keep the discount subject before a customer who does not always discount. He likes to buy right, and we should remind him that whatever price advantage he secures by earning cash discount is his own money; he does not have to use that figure when he marks up his invoice cost to arrive at his selling price to his customer.
4. Any conversation with a customer that deals with the subject of business prospects, how other concerns are making out or what business conditions a salesman encounters in his traveling, can be turned toward a consideration of how well the customer himself is collecting, whether he uses the services of an attorney on accounts of considerable age, and what he looks for in progress in his cash position in the months ahead. He can be tactfully reminded that our Credit Department is always glad to give him counsel on financial and credit problems and, quite often, could be helpful when he is considering what volume of business he can plan on without using up his available cash.

YOU ARE INVITED

to write us your views, for publication, on any article in this and future issues of your magazine.

—ED.

Honorary Doctor of Science Degree to George J. Kelley

An honorary degree of doctor of science in business administration has been presented to George J. Kelley, vice president of Swank, Inc., Attleboro, Mass., by Piedmont College, Demorest, Ga. Mr. Kelley is a director of the Rhode Island Association of Credit Men.

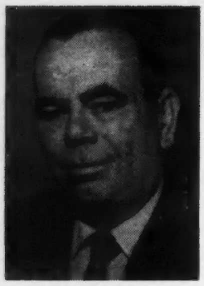
The citation referred to Mr. Kelley as one who "has contributed a full measure of professional skill in the field of business administration, and simultaneously has increased his interest in church and education affairs."

An article by Mr. Kelley on Swank's billing system appeared in CFM June 1954, one on automation in the office in June '57.

New England Unit Hears Roberts

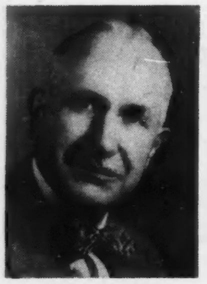
Opening the season for the New England Association of Credit Executives, Inc., W. E. Knight, manager of research and development, Greater Boston Chamber of Commerce, spoke on "Tomorrow's Man."

R. G. SNEED, JR.



J. P. McLAUGHLIN

Executives in the News



G. W. BROWN

LEWIS DURANT

C. B. ROCKSTAD

H. E. WARREN

Houston Banker Serves Diverse Areas of Credit

Recently honored with election to the presidency of the Houston Association of Credit Management, R. G. Sneed, Jr., vice president First City National Bank of Houston, is past president of the Houston Retail Credit Association. In the NACM affiliate he has served as chairman of the Credit Interchange and budget committees.

Vice president since 1958 of First City National, Mr. Sneed has been co-manager of the bank's credit department seven years. He is an alumnus of the Graduate School of Banking of Rutgers University.

Iron-Steel Executive Works For Professional Progress

Recently named president Alabama Association of Credit Executives, Lewis Durant, assistant treasurer Tennessee Coal & Iron Division, United States Steel Corporation, Fairfield, Ala., served as chairman of the Allied Industries Credit Executives Group, as chairman Credit Interchange Committee and as vice president of the association.

Mr. Durant attended Marion Military Institute. Following graduation from Auburn University (B.Sc., 1947) he went with Tennessee Coal & Iron as credit clerk. He currently attends the NACM Graduate School of Credit and Financial Management, Dartmouth.

His 32 Years of Experience Redound to the Profession

How 32 years in petroleum credit work can redound to benefit of company and profession is reflected in past and present titles held by J. P. McLaughlin, assistant treasurer and general credit manager Richfield Oil Corporation, Los Angeles. Recently named president Credit Managers Association of Southern California, Nebraska-born Mr. McLaughlin is past president American Petroleum Credit Association. At the 1956 Credit Congress, Cincinnati, he presided over the Petroleum Industry Group session. Mr. McLaughlin is currently chairman California state legislative committee NACM and member APCA advisory committee.

Saw Fort Worth and Stayed, Banker Takes Honors There

George W. Brown was born in Easthampton, Mass., worked 21 years with the Northampton (Mass.) National Bank. Stationed in Fort Worth during Air Corps service in World War II, he liked the city enough to remain. Now assistant vice president The First National Bank of Fort Worth and manager of the credit department, Mr. Brown has been named president Fort Worth Wholesale Credit Association. He has served as president Fort Worth Retail Credit Managers Association and of West Texas region Retail Credit Executives of Texas, and as director Texas chapter Robert Morris Associates.

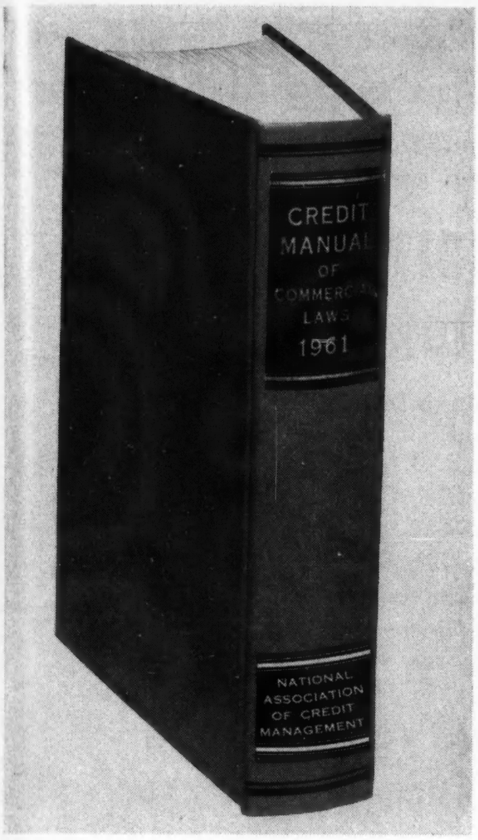
Oregonian Attended First CRF Graduate School in '47

Looking back to the first session of the Graduate School of Credit and Financial Management sponsored by the Credit Research Foundation NACM, held in 1947 at the University of Wisconsin, Madison, C. B. Rockstad, now president of the Oregon Association of Credit Management, notes: "Among the many worthwhile ideas emanating from that session is our ledgerless accounts receivable bookkeeping system, which has saved Packer-Scott both time and money." Recently Mr. Rockstad and his company served as host to a Credit Education Group of the association, which studied the system.

Mr. Rockstad, a 30-year employee of Packer-Scott Company of Oregon, Inc., Portland, has been credit manager 28 years.

H. E. Warren, Denver, Heads Western Floor Covering Unit

H. Earl Warren, owner Artcraft Linoleum & Tile Company, Denver, has been named president Western Floor Covering Association. Elected president of the Associated Floor Covering Dealers of Denver in June 1959, Mr. Warren helped organize the Western Floor Covering Association that year. Memberships of Mr. Warren include National Association of Home Builders, Associated Building Contractors of Colorado; Colorado Tile, Terrazzo and Marble Dealers Association, Rocky Mountain Association of Credit Men.



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